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SACCO DESIGN STUDY FOR SUNFLOWER PRODUCERS
LIRA REGION

FINAL REPORT

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Rural SPEED

Rural Savings Promotion & Enhancement of Enterprise Development

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LIRA REGION

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USAID/Rural SPEED
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This report submitted by Chemonics International Inc.

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Acronyms

APEP	Agricultural Productivity enhancement Program
ASPS	Agricultural Sector Programme Support
CC	Credit Committee
CMF	Commercial Microfinance
EMC	Education and Marketing Committee
GOU	Government of Uganda
ICC	Internal Control Committee
MDI	Micro-deposit Taking Institution
MF	Microfinance
MFI	Microfinance Institution
MUKWANO	Mukwano Group of Companies - Uganda
NGO	Non Governmental Organization
PEAP	Poverty Eradication Action Plan
PO	Producer Organization
POPP	Partnership for Oilseed Production and Processing
Rural SPEED	Rural Savings Promotion and Enhancement of Enterprise Development
SACCO	Savings and Credit Cooperative
SCOPE	Strengthening the Competitiveness of Private Enterprise
SOW	Scope of Work
USAID	United States Agency for International Development

Executive Summary

Since 1987, the Government of Uganda (GOU) has instituted major economic policy reforms to encourage the financial sector to become increasingly efficient, productive, and competitive. Uganda is well on its way to having a vibrant and reasonably deep financial services sector, with fifteen commercial banks, seven commercial credit institutions, four licensed and one potentially licensed micro-deposit taking institutions (MDIs), numerous microfinance institutions (MFIs), and member-owned savings and credit cooperatives (SACCOs). Despite recent growth and liberalized economic policies, only ten percent of the rural population has access to basic financial services. In addition, both the formal and the informal financial sectors still require structural changes to be able to provide the range and depth of financial services that individuals and businesses require.

USAID/Rural SPEED's objective is to deepen and strengthen Uganda's financial sector in response to this rural sector demand for financial services. The increased provision of financial services should leverage economic activity to complement other USAID/Mission programs in rural areas. The resulting increase in economic activity should aid the GOU in achieving the target economic growth rates proposed in Poverty Eradication Action Plan. The USAID/Rural SPEED project is supporting and executing activities in the following areas:

- Institutional Capacity Building; and
- New Product Development and Service Delivery

The objective under this scope of work was to conduct a design study for the formation of a SACCO system in the Lira, Apac and Masindi districts, where hybrid sunflower farmers enjoy a predictable income as out-growers for Mukwano. These farmers have assured access to inputs (especially hybrid seed), extension services and a known market for the production. The survey was conducted using a focus group approach and collected information on farmer organizations, production, expansion capacity, costs, access to financial services, and additional economic activities in seventeen communities (Lira 3, Apac 7, Masindi 7).

The survey found that the promotion strategy used by Mukwano to attract farmers to become hybrid sunflower growers has been very effective, especially the radio programs. Any SACCO development strategy would be wise to follow this example to reach the maximum number of potential members. Communities, which received the USAID/APEP producer organization training, seemed better organized than those that have not. They are more likely to work together and understand the need to select good leaders based on an objective set of criteria. They are better able to identify qualified people from among the group members, which will help in the selection of qualified board members of any future SACCOs.

Family labor is sufficient to prepare 1-3 acres of sunflower per growing season; however, expanding beyond this would require cash to pay for the labor. Finance would also permit more farmers to acquire or hire ox-plowing for their fields, which seems to be the most appropriate type of plowing for the farmers. The greatest constraint to sunflower expansion is the shortage of sufficient hybrid seed to meet demand. While Mukwano is working at a long term solution, in the near to medium future demand will exceed supply. In fact, it was estimated by the site coordinators, in the Lira and Apac districts, that two out of three farmers were unable to purchase hybrid seed for the 1st season 2006. The next most critical constrain is weeding. It must be done quickly and on time. Labor for hire appears to be available to overcome the weeding constraint, if finance was available. The use of herbicides and a more appropriate weeding tool would reduce the number of weedings to one, instead of the current two.

Very few farmers or site coordinators are keeping written records. Written records will be extremely important for granting credit applications and reducing risk. A simple and practical record system, using an exercise book or pocket diary, needs to be introduced. Record keeping would also demonstrate to farmers the advantage of maximizing yield before expanding the number of acres cultivated.

While borrowing for agricultural production occurs, it is limited in amount and number. Neither banks nor MFIs offer a loan product designed for sunflower. Savings exists and is generally kept in livestock and as cash hidden in homes. Distance was cited as the most limiting factor for farmers to access formal savings accounts. The close proximity of a SACCO would resolve this issue, given that all recognize the need to have a safe place to save. Finally, there are many other economic activities conducted by household besides farming, which would provide a more diversified pool of resources for a SACCO.

The study found that there is greater potential for financial intermediation in the Lira and Apac districts, at this time, than in the Masindi district. The reason for this is that the farmers there have a longer experience in hybrid sunflower production and in working with Mukwano, more disposable resources, and better community organizations. Lira and Apac showed positive signs of willingness to actively support, promote and join a SACCO, if it were deemed to be viable.

The cluster centers, in general, are good locations for SACCOs. The overall selection and implementation strategy should follow an approach where there is a limited number (five) of strategically placed SACCOs, which cover the most productive areas of Lira and Apac districts. Operations would only begin once they have 350 paid in members. Membership is expected to increases on a linear basis to reach 1,010 by the end of 12 months and 2,006 by the end of 24 months. As demand for financial services increases, with the growing number of hybrid sunflower farmers, the SACCOs will have the option of opening satellite branches, in areas where membership would equal or exceed 500 – 1,000 members.

To do this, two critical elements must exist, first, a good, functional system of governance and second, a strong accounting and financial management system. The time needed to create the good governance system can be relatively short, varying from 12-18 months provided that there is a mix of appropriate training sessions, study visits to well-functioning SACCOs and mentoring support available. The financial system; however, is more complicated and requires a lot more time and effort. The alternative to creating and managing the entire financial system at each SACCO, given the high risk of losing of member savings before they become competent, is to outsource the accounting and financial system to a formal banking sector partner. The ideal partner would be an institution with strong financial management experience and systems, along with a shared vision for SACCO development, such as Tier 1, 2 or 3 institution. This institution could provide the teller and an on-line banking (accounting and financial management) software system, such as Equinox, to each SACCO. This system would help the SACCOs quickly meet and respond to demand, without requiring a 2-5 year learning curve period before adopting activity specific savings and loan products.

No matter what decision is taken on whether to partner with a Tier 1, 2 or 3 support institution, or not, the SACCO must have a strong and performing accounting and financial management system. The potential to have 5,000 or more members, implies that the SACCOs should start their operations with a computer based system and not waste time and money converting from a manual system to a computerized one in one or two years. It would be preferable to make a significant investment to create an excellent model, which could be

linked to formal banking structures and possibly serve as a cash point. The choice for an appropriate and effective software system must take into account the future income streams and the current cost of the investment.

The primary focus of the SACCO must be to mobilize savings to be used to provide loans to members. It is therefore important that specific savings products are created in addition to the ordinary savings required to join. First and foremost among the specific savings products would be a "sunflower inputs savings account." The purpose of this account to set aside cash to purchase of next season's hybrid seed, herbicide and other inputs needed for sunflower production. The long term goal would be to build up this savings account so as to be able to finance at least 50% of all investment costs for sunflower production on three to five acres. Eventually, as income increases the SACCO will want to offer fixed deposit saving to ensure that most of the longer term savings can be used to lend to members.

While credit is likely to be a strong motivating factor for joining a SACCO, it needs to be carefully implemented and deemphasized. Credit should be made available through a range of products and not a single one-size-fits-all product. The agricultural loan products need to fit the technical specifications of the sunflower production, without over-estimating the repayment capacity of the individual farmers. It would be risky to lend more than fifty percent of the total estimated cost of production. It appears that there are a number of factors, which have to be addressed to improve yield and bring them up to the 1,200 kg/acre level, such as good land preparation (ox-plowing, tractor), quick and timely weeding (a better tool – ZamWipe, herbicide), planting and fertilizer. Each factor might require finance.

The initial loan product for sunflower production should be a multi-stage disbursement product, since there are at least three discrete times at which finance is needed; i.e., plowing, planting with fertilizer, and weeding. It is highly likely that a lump sum loan given at the time of plowing would be diverted to other household expenses rather than being saved to meet planting and weeding costs, which occur one or more months in the future. With this loan product the SACCO would have the option of giving all the phased payments to someone, who is expanding from 3 to 5 acres, or using only a specific phase, such as weeding, for individual growing l to 3 acres of sunflower. Individuals with documented yields above 850 kg/acre would be the first loan recipients. Farmers with lower yields could only qualify for smaller loans; i.e., for weeding only.

If the SACCO promotion in the hybrid sunflower growing areas is to succeed, such that this successful model is replicable, then USAID/Rural SPEED will need to ensure that sufficient promotion and training resources are put in place to train the board members, committee members and management staff. This implies the recruitment of a full time SACCO trainer/promoter to drive the promotion and set up efforts, for a period of one to two years. It would also be helpful to train the two Lira USAID/APEP agents to ensure that they correctly understand the SACCO formation process and its objectives. They are well respected by the producer groups and sunflower farmers. As such, they can serve as a trusted source of information to respond to community member questions, when they are in the field, and provide valuable support to the SACCO trainer/promoter. It is very important that promotion efforts make a maximum use of the current strategy employed by Mukwano for the hybrid sunflower production; i.e., using a weekly radio program and voluntary promoters to sensitize and train potential members.

In conclusion, the survey phase of this consultancy indicated that there are strong economic and social motivations to provide access to financial services in the communities where hybrid sunflower is being grown. Although the amount of cash generated by the sale of

sunflower production is significant, most of the money is used for consumption purposes due to lack of alternatives for savings. Of the part that is saved, most is invested in livestock or simply hidden somewhere in the home. Every community visited said they lacked safe places to save within a reasonable distance from their homes. While banks are considered safe they are too far away and too expensive for most of the population, who would like to save small amounts on a regular or periodic basis. Therefore, the savings and credit cooperative model would be the most appropriate channel for delivering savings and credit services in these rural areas.

It is therefore recommended that:

1. A savings and credit cooperative system be promoted in the Mukwano hybrid sunflower area of Lira and Apac districts.

2. The proposed SACCO model focuses on potential for economies of scale in deciding on the location of the SACCO. There are currently 21,000 farmers interested in growing hybrid sunflower for Mukwano of which approximately 8,000 are already receiving the hybrid seed. These 8,000 farmers are sufficient to begin SACCO development.

3. To meet a potential demand of 21,000 members it will be necessary to have a small number of strategically located SACCOs, each of which would have between 3,000 and 5,000 members.

4. The criteria for SACCO site selection are;
   - Number of hybrid sunflower grower (minimum of 350);
   - Total acreage planted;
   - Number of potential sunflower growers, if seed were available (minimum of 1,000);
   - Total active population served by the cluster area (minimum of 3,000);
   - Availability of suitable physical infrastructure (building);
   - At least two years of hybrid sunflower growing experience (4 growing seasons);
   - Amount of hybrid seed pre-purchased;
   - Amount of sunflower seed produced and sold to Mukwano;
   - Existence of producer organizations, which were trained by USAID/APEP;
   - Higher yield per acre, based on Mukwano data;
   - Highly motivated population;
   - Pool of educated and trainable people to serve as board members;
   - Ability to recruit university degree candidates for manager and loan officer positions.

5. While initial promotion will focus on sunflower producers, it is advisable to market the SACCO to other community members who have additional economic activities besides farming, to have a diversified pool of resources for both savings and lending.

6. The promotion strategy should focus on using a radio program to inform and sensitize potential members, in addition to trained volunteer promoters (similar to lead farmers).

7. Further technical training and mentoring support should be provided by a full time SACCO organizer/trainer, for a period of one to two years.

8. The primary focus of the SACCO must be to mobilize savings to be used to provide loans to members. It is therefore important that specific savings products are created, first and foremost of which is a specific savings product for sunflower inputs. The long term goal would be to build up this savings account so as to be able to finance at least 50% of all investment costs for sunflower production.

9. While credit is likely to be a strong motivating factor for joining a SACCO, it needs to be carefully implemented and deemphasized.

10. Credit should be made available through a range of products and not a single one-size-fits-all product.

11. The initial loan product for sunflower production should be a multi-stage disbursement product, since there are at least three discrete times at which finance is needed; i.e., plowing, planting with fertilizer, and weeding.

12. Loans should be granted to better farmers first. Using yield and production data as a criteria for lending amount would significantly reduce the agricultural risk.

13. Investment from both savings and loans should focus on maximizing yield per acre (ox-plowing, tractor plowing, fertilizer, herbicides) before allowing for loans to expand acreage.

14. Farmers must be encouraged to keep written records to be able to evaluate costs and calculate net profit or loss.

15. SACCOs should start their operations with a computer based system and not waste time and money converting from a manual system to a computerized one in one or two years.

16. Outsource the SACCO accounting and financial management system to a formal banking sector partner rather than creating and managing the entire financial system at each SACCO, given the high risk of their losing member savings before they become fully competent.

17. USAID/Rural SPEED should issue a RFP to identify financial institutions capable of providing back office support in accounting and financial management.

18. Finally, given that areas visited in Lira and Apac showed positive signs of willingness to actively support promote and join a SACCO, USAID/Rural SPEED, Mukwano, and USAID/APEP should move as quickly as possible to promote these model SACCOs before the next growing season.

1. Background

1.1 Introduction

Since 1987, the Government of Uganda has instituted major economic policy reforms to encourage the financial sector to become increasingly efficient, productive, and competitive. Uganda is well on its way to having a vibrant and reasonably deep financial services sector, with fifteen commercial banks, seven commercial credit institutions, four licensed and one potentially licensed micro-deposit taking institutions, numerous microfinance institutions, and member-owned savings and credit cooperatives. Despite recent growth and liberalized economic policies, only ten percent of the rural population has access to basic financial services. Both the formal and the informal financial sectors still require structural changes to be able to provide the range and depth of services that individuals and businesses require.

Commercial lending and the majority of microfinance lending activities remain confined to urban and peri-urban areas due to the high cost and low return of rural outreach. In addition, interest rates remain high, adequate forms of collateral do not exist due to continuing disorganization within the land registry system and the financial and social costs of selling mortgaged land and properties after seizure. Furthermore, there is little accountability and proper supervision of Tier 4 institutions, such SACCOs, especially in the rural areas.

To stay true to the goals set in the GOU's Poverty Eradication Action Plan (PEAP), Uganda must achieve an annual economic growth rate of seven to eight percent to reduce overall poverty to ten percent by 2017. All citizens, especially the poorest, must benefit from economic growth and have access to financial services, such as savings and credit. The USAID/Uganda's 2002-2008 Strategy therefore calls for expanded, sustainable economic opportunities for rural sector growth, through promotion of a connection between productive strategies implemented by the private sector in rural areas and expansion of the financial services sector to these areas. USAID's Rural Savings Promotion and Enhancement of Enterprise Development (USAID/Rural SPEED) was thus designed to help achieve this goal.

USAID/Rural SPEED's objective is to deepen and strengthen Uganda's financial sector in response to this rural sector demand for financial services. The increased provision of financial services should leverage economic activity to complement other USAID/Mission programs in rural areas. The resulting increase in economic activity should aid the GOU in achieving the target economic growth rates proposed in Poverty Eradication Action Plan. The USAID/Rural SPEED project is supporting and executing activities in the following key areas:

A. Institutional Capacity Building
   - Savings Mobilization;
   - Agriculture Finance;
   - Non-agriculture Finance; and,
   - Bank//MDI/MFI/SACCO Linkages.

B. New Product Development and Service Delivery

One of USAID/Rural SPEED's primary strategies has been to provide technical support to Uganda's SACCOs in order to achieve its key activities in rural areas. USAID/Rural SPEED, along with other donor programs and the GOU, view SACCOs as a critical element for extending financial services to rural people, multiplying and expanding rural savings and credit transactions through formal wholesale borrowing and depositing with commercial

banks, and providing a locally-based, locally-knowledgeable rural financial intermediary capable of prudently lending for agricultural activities.

Uganda has, unfortunately, had a mixed experience with a multitude of SACCO models (with respect to governance structures, management styles, policies and procedures, and financial systems) owing to the fact that SACCOs have been promoted by a myriad of donors and governmental actors. In addition, a number of SACCOs have arisen organically and without guidance or assistance. The result is that there is no single, strong, replicable model for superior performing SACCOs.

Beyond this, with or without an appropriate model, there are many areas of Uganda that lack access to formal or semiformal savings and credit institutions. These areas, however, have reasonable physical infrastructure, high population density, regular incomes and predictable markets. One area, Lira and Apac has approximately 21,000 sunflower producers who are forward-contracted growers for one of Uganda's largest agribusiness firms, the Mukwano Group of Companies, Uganda (Mukwano). Studying the process of placing a system of SACCOs in such an area, with a clear road map for its creation coupled with a sound structure, would drive the entire SACCO movement, and the Ugandan rural finance paradigm, forward.

1.2 Scope of Work

The objective under the scope of work (SOW) was to conduct a design study for the formation of a SACCO or SACCOs in the Lira, Apac and Masindi districts for hybrid sunflower farmers, who enjoy a predictable income as out-growers for Mukwano. The hybrid sunflower farmers have assured access to inputs (hybrid seeds and herbicides[1]), extension services and a known market for the production. Inputs are purchased in cash, based on signed, written forward contract with Mukwano. This design study, in line with USAID/Rural SPEED's mandate, focuses on creating an institution built on a foundation of aggressive savings mobilization and strong equity formation to underpin the inherent risks of agricultural lending. The output from this consultancy, while specific to the hybrid sunflower growers' market is general enough to act as a model for additional SACCO development. The principal tasks to be completed under this SOW were to:

1. Meet with USAID/Rural SPEED and establish a concise work plan for the study.
2. Meet with Mukwano (Kampala) to have a preliminary understanding of their out-growers scheme, the nature of their farmers and how a SACCO will fit this context.
3. Travel to Lira, Apac and Masindi to visit rural buying centers, out-grower clusters and Mukwano field staff.
4. Prepare a written model for a SACCO design.
5. Use the model to recommend the following:
    a. where the SACCOs should be located;
    b. what promotional strategy would be best for attracting members;
    c. how the board should be elected and trained;
    d. the roles and responsibilities of SACCO committees;
    e. profiles and job descriptions for management;
    f. accounting and portfolio tracking systems;
    g. policies and procedures for operations; and
    h. A program for 1-year of ongoing USAID/Rural SPEED support to the SACCOs.

[1] The only herbicide sold to the farmers is Monsanto's Round-up Max, which is not harmful to the environment.

6. Deliver a brief presentation to USAID/Rural SPEED and invited guests to review the recommendations.

As such, the work plan dates for the assignment under the SOW are shown in Table 1.

Table 1 Consultancy Work Plan Calendar

FROM	TO	ACTIVITY
January 17, 2006	January 17, 2006	Travel from Toledo to Amsterdam
January 18, 2006	January 18, 2006	Travel – Amsterdam to Entebbe
January 19, 2006	January 22, 2006	Preliminary work in Kampala
January 23, 2006	January 30, 2006	Field visits in Lira and Apac districts
January 30, 2006	February 4, 2006	Field visits in Masindi district
February 5, 2006	February 15, 2006	Writing and review of study proposal
February 16, 2005	February 16, 2005	Presentation of report and revisions Travel from Entebbe to Nairobi
February 17, 2005	February 17, 2005	Travel from Nairobi to Toledo

The total number of work days under the assignment was twenty-eight (28), which includes international travel from and to the United States.

1.3 Methodology

The survey was conducted, using a focus group – open discussion approach, to collect a maximum amount of information on farmer organizations, production, expansion capacity, costs, access to financial services (credit and savings), and additional economic activities in the least amount of time. Seventeen of the eighty-four communities, distributed among fifteen cluster centers (Appendix C), growing hybrid sunflower were selected at random (Lira 3, Apac 7 and Masindi 7) from the list provided by Mukwano. Site coordinators who could not be reached by cell phone to inform them of our visit were excluded. Meetings lasted between 2 – 2½ hours. Two meeting were held per day. Attendance varied from 20 to 95, farmers with some women present at all but one meeting. The number of participants depended primarily on the amount of advance notice given to the community. In addition, four Mukwano field management staff and four USAID/APEP agents, working with Mukwano, were interviewed. The questionnaires used during survey are presented in Appendix D.

2.0 Activity Summary

2.1 General Findings

The promotion strategy used by Mukwano to attract farmers to become hybrid sunflower growers has been very effective; i.e., weekly radio program, demonstration plots, word of mouth, and technical training from the site coordinators (Appendix E), who are well trusted by the community members. The radio program has been especially effective in both continuing and building upon the training and demonstrations provided by the site coordinators. Any SACCO development strategy would be wise to follow this example to reach a maximum number of potential members in the least amount of time.

Farmers identified a number of critical reasons why they had chosen to grow the hybrid sunflower. Their reasons were: the short growing cycle, two crops per year, existence of a forward market at a guaranteed price, guaranteed purchase of all production, cash payment at the time of sale, higher yields per acre, and the access to training and technical information from the site coordinators. The technical support provided by and through the site coordinators is greatly appreciated by the farmers; i.e., training on land preparation, planting, spacing, weeding, harvesting at maturity, and drying. In addition, both the growers and the site coordinators have signed contracts guaranteeing the terms and conditions of their partnership (Appendixes F and G).

Communities, which have received the USAID/APEP producer organization (PO) training, seem better organized than those that have not. They are more likely to work together to resolve time constraints during planting; i.e., working together in each others' fields. USAID/APEP promoted POs understand the need to select good leaders based on an objective set of criteria. They are better able to identify qualified people from among the group members, than those who have not received the training. This is an important quality to have in the community in order to ensure the selection of qualified board members of any future SACCOs.

The farmers recognize the better farmers; i.e., those who follow all of the agricultural practices correctly and on time, resulting in a higher yield, although yield is often confused with total production. They recognize the advantages of fertilizer (DAP) use but lack sufficient cash at planting time to be able to purchase it. All expressed an interest in receiving seasonal fertilizer credit from Mukwano or some other institution. This would allow farmers to maximize the yield per acre, without too much additional investment. It is estimated that the proper use of fertilizer would increase yields, on average, by 250 - 300 kg. This would cover the cost of fertilizer and yield from 16,500 to 34,000 UGX in additional profits/ acre.

According to most farmers, there is a significant potential for expanding sunflower production, specifically by growing more acres and by adding additional farmers. Most own more land than they can currently farm using family labor and would expand acreage if they had the financial means to do it. Rented land is expensive (30,000 UGX/acre) and is paid to the landowner in advance. Many landowners have taken into account the cash value of sunflower in setting the price and require the rent to be paid each season, instead of on an annual basis. While this is more frequent in the Masindi district, it does occur in Lira and Apac. This trend is likely to spread, increasing the cost of expansion for those without land.

Family labor is sufficient to prepare 1-3 acres of sunflower per growing season; however, expanding beyond this would require cash to pay for the labor. Finance would also permit more farmers to acquire or hire ox-plowing for their fields. If demand for ox-plowing

increased, the current number available would be insufficient. From a cost and availability stand point, ox-plowing seems to be the most appropriate type of plowing for the farmers.

In fact, it was estimated by the site coordinators that two out of three farmers were unable to purchase hybrid seed for the 1st season 2006.

The greatest constraint to sunflower expansion is the shortage of sufficient hybrid seed to meet demand. While Mukwano is working at a long term solution, in the near to medium future demand will exceed supply. In fact, it was estimated by the site coordinators, in the Lira and Apac districts, that two out of three farmers were unable to purchase hybrid seed for the 1st season 2006. Seed was also rationed by allowing farmers to purchase a maximum of 6 kg (enough for three acres), so those capable of planting more acres could not expand their production. Weeding on time and quickly, is the next most critical constraint. Use of family labor may take a week or more per acre, thus reducing yield and acreage cultivated. Labor for hire appears to be available to overcome the weeding constraint, if finance was available. Local groups are available for hire at a rate of 20-25,000 UGX per acre. The use of Round-up Max[2] would reduce the number of weeding to one, instead of the current two, however, this would require savings or credit for farmers to use it.

A simple and practical record system, using an exercise book or pocket diary, needs to be introduced.

Very few farmers or site coordinators are keeping written records. Keeping records will be extremely important for granting credit applications and reducing risk. A simple and practical record system, using an exercise book or pocket diary, needs to be introduced. Site coordinator records on farmers would be an excellent source of independently verifiable information for credit decisions at a SACCO. Having a history of higher yield would significantly reduce the agricultural risk. Keeping records would also demonstrate to farmers the advantage of maximizing yield before expanding the number of acres cultivated. It would also ensure that each farmer knew how profitable his/her sunflower production was and whether or not a loan would increase net income.

While some borrowing for agricultural production occurs, it is limited in amount and number. Neither bank nor local MFIs offer a loan product designed to grow sunflower. Even if the product did exist, few farmers have assets, which can be considered as collateral. Most farmers expressed an interest in receiving hybrid seed on credit, as a condition to expanding production. To date, Mukwano has indicated that it would not provide seed credit. Given the relatively small cost per acre (14,000 UGX), there is an opportunity for a SACCO to create a specific savings product to ensure adequate cash for seed purchase the following season.

Savings exist and are generally kept in livestock and as cash hidden in their homes. There was considerable reluctance to publicly announce their savings, so an average value cannot be determined. A limited number of farmers have bank accounts or save cash with a friend or a shopkeeper. Distance was cited as the most limiting factor for farmers to have formal savings accounts. The close proximity of a SACCO would resolve this issue, given that all recognize the need to have a safe place to save. The locations selected by Mukwano for cluster centers meet most, if not all of the criteria needed for placement a SACCO; i.e., existence of physical infrastructure (building), central location, business center, population density (1,000 – 3,000 families), and access to transportation.

[2] Round-up Max is an herbicide produced by Monsanto and approved for use in controlling weeds in Uganda.

There are many other economic activities conducted by household besides farming. These include, but are not limited to: shop keeping, brick making, small restaurants, bicycle Boda-Boda[3], poultry, piggery, market vending, carpentry, tailoring, and teaching. This would provide a more diversified pool of resources for both savings and lending for a SACCO.

Finally, all areas visited in Lira and Apac showed positive signs of willingness to actively support, promote and join a SACCO if it were deemed to be viable. Most farmers wanted to know if the savings and especially loan services would be available before the next growing season and how quickly could they be trained to make it happen.

Most farmers wanted to know if the savings and especially loan services would be available before the next growing season and how quickly could they be trained to make it happen.

2.2 SACCO Promotion and Development

2.2.1 SACCO Location

After visiting 17 sites in Lira, Apac and Masindi districts, it is clear that there exists a greater potential for financial intermediation in the Lira and Apac districts, at this time, than in the Masindi district. The reason for this is that the farmers have a longer experience (5-6 growing seasons) in hybrid sunflower production, longer experience in working with Mukwano, more disposable resources, and better community organization. While Masindi may have great potential, according to the Mukwano regional supervisor, the impressions received during the visits were much less positive than for Lira and Apac. The Mukwano cluster centers, in general, are good locations for SACCOs. However, it would only make sense to have three to (preferably) five strategically located SACCOs in Lira and Apac districts. The limited number of SACCOs could expand their geographic coverage, as demand increases, to include neighboring communities through a network of satellite branches, which would open one or two times a week. Site selection criteria should include:

- Number of hybrid sunflower grower (minimum of 370);
- Total acreage planted;
- Number of potential sunflower growers, if seed were available (minimum of 1,000);
- Total active population served by the cluster area (minimum of 3,000);
- Availability of suitable physical infrastructure (building);
- At least two years of hybrid sunflower growing experience (4 growing seasons);
- Amount of hybrid seed pre-purchased;
- Amount of sunflower seed produced and sold to Mukwano;
- Existence of producer organizations, which were trained by USAID/APEP;
- Higher yield per acre, based on Mukwano data;
- Highly motivated population;
- Pool of educated and trainable people to serve as board members;
- Ability to recruit university degree candidates for manager and loan officer positions.

In discussions with the Lira USAID/APEP agents concerning potential SACCO sites, the following villages were suggested:

District	Cluster Center	Village
Apac	Iceme	Iceme
Apac	Abongomola	Abongomola

[3] Boda-Boda is a form of transportation service used extensively in Uganda. It refers to bicycles and motorcycles used as taxis for transport.

Apac	Ayer	Adime
Lira	Lira	Barapow
Lira	Amac	Banya

All except the Banya were visited during the survey. Of the sites visited, Iceme and Abongomola gave the most favorable impressions as possible SACCO locations. While Adime and Barapow not listed as the cluster center sites, they seemed to function like cluster centers. Since Banya was not visited during the survey, no opinion on its suitability for SACCO formation can be given. Formal determination of SACCO sites would involve a collaborate discussion between USAID/Rural SPEED, USAID/APEP, ASPS, Mukwano and the potential communities.

The overall selection and implementation strategy should follow an approach where there is a limited number (maximum of five) of strategically placed SACCOs, which cover the most productive areas of Lira and Apac districts, and can expand to reach all of the other grower communities. The idea is to begin with at least 350 members and bring that up

2.2.2 Operational Set-up

First, a good, functional system of governance and second, a strong accounting and financial management system are needed.

In order to create a superior performing SACCO, two critical elements must exist, first, a good, functional system of governance and second, a strong accounting and financial management system. The time needed to create the good governance system can be relatively short, varying from 12-18 months provided that there is a mix of appropriate training sessions, study visits to well-functioning SACCOs and mentoring support by someone or by another well-performing institution. The financial system; however, is more complicated and requires a lot more time and effort. A well qualified accountant needs to be hired and trained. Next, a transparent and effective system of controls must be created and implemented. This is often where well meaning SACCOs fail. The outside monitoring of this system requires a high level of audit and internal control capacity, which is beyond the scope of even five SACCO linked together. This function is generally associated with a regional body, such as a SACCO Union, or under a national association of SACCOs. Unfortunately, neither of these options exists in the Lira and Apac area.

The alternative to creating and managing the entire financial system at each SACCO, given the high risk of losing of member savings before they become competent, is to outsource the accounting and financial management system to a formal banking sector partner. The ideal partner would be an institution with strong financial management experience and systems, along with a shared vision for SACCO development, such as Tier 1, 2 or 3 institution. This institution could provide the teller and an on-line banking (accounting and financial management) software system, such as Equinox, to each SACCO. The Equinox software system is a fully functional and adaptable banking system. This system would help the SACCOs quickly meet and respond to demand, without requiring a 2-5 year learning curve period before adopting activity specific savings and loan products.

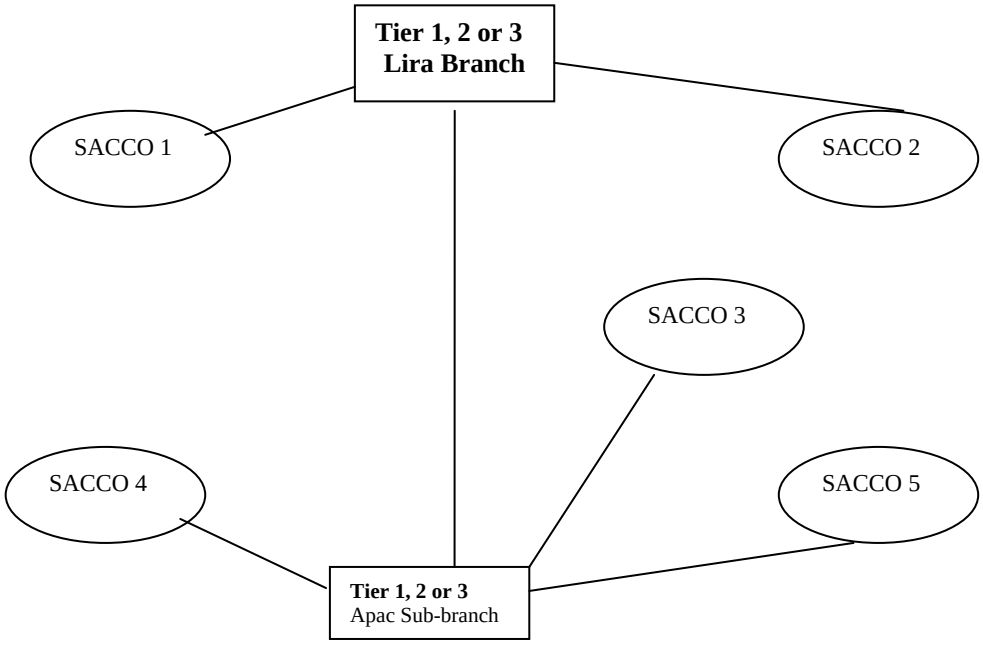
SACCOs would have to be equipped with a computer, a printer, a cellular wireless communication system, a pedestal fan, and a solar panel array to provide power. This model is already installed and functioning in five Masindi clusters and is expected to be expanded to seven clusters in the Lira and Apac districts in early 2006. This Mukwano-ASPS model (Appendix H) would seem to be both appropriate and feasible for the SACCOs.

SACCO management would have access to the system for reports but would not enter financial transaction data. SACCO management would authorize and approve all transaction, but not manage the data operations and cash handling. SACCO management could not authorize or disburse any funds without the system first verifying its availability, per account line item. There would no longer be any risk that savings would be used for expenses. Cash-on-hand would balance with accounting records at all times, making the SACCO safe and sound. The Tier 1, 2 or 3 institution would provide the internal control and a cash-in-transit facility to manage liquidity. This service would be included in the cost of the financial management services.

This process would give the SACCO management and board of director the time they need to build up their own financial management capacity. Instead of remaining open every day to service members, the SACCOs would have a limited number of service days to keep expenses low. On the days that the SACCO, is closed a cash point (ATM) could be added to provide members with access to their accounts, as needed.

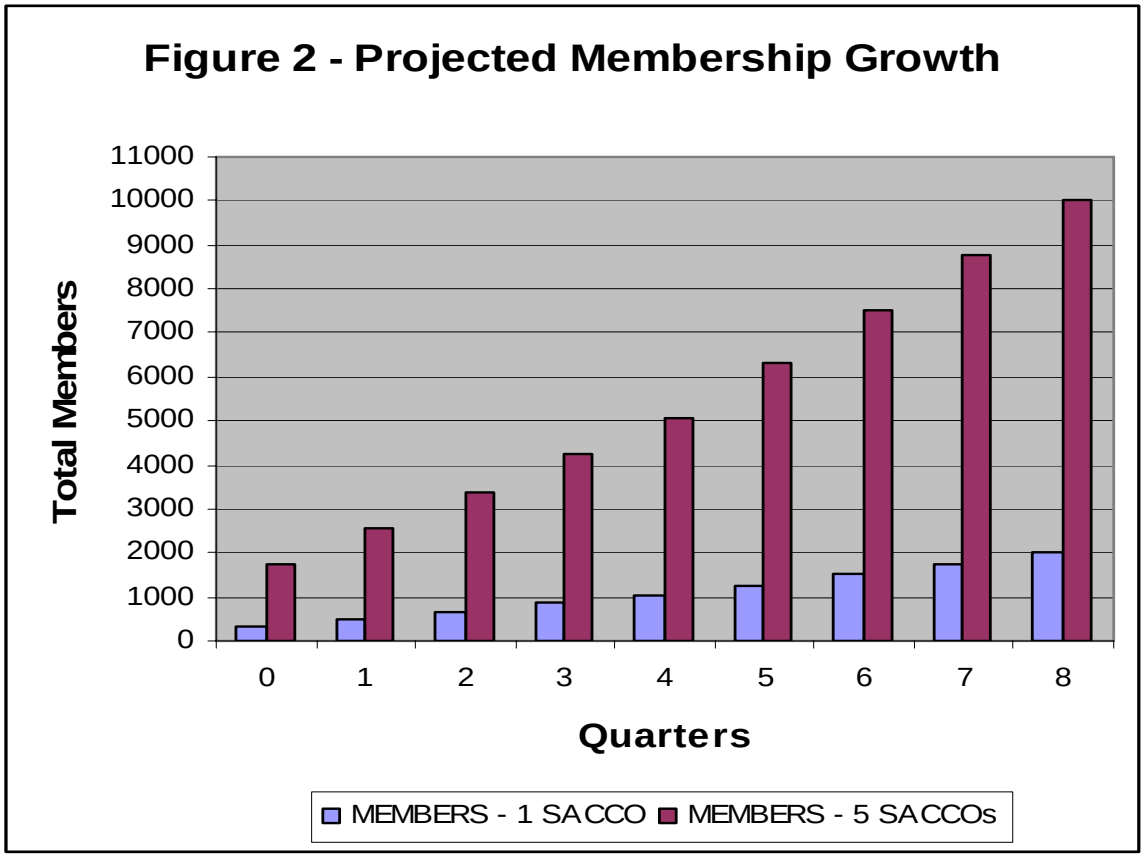
Figure 1 provides a visual representation of how the SACCOs would be linked to the Tier 1, 2 or 3 institutional branch, which would be located in Lira. Each SACCOs is expected to begin operations with at least 350 members and grow to more than 1,000 members within 12 months and then exceed 2,000 members by the end of 2 years.

Figure 1 SACCO – Tier 1, 2 or 3 Support Model



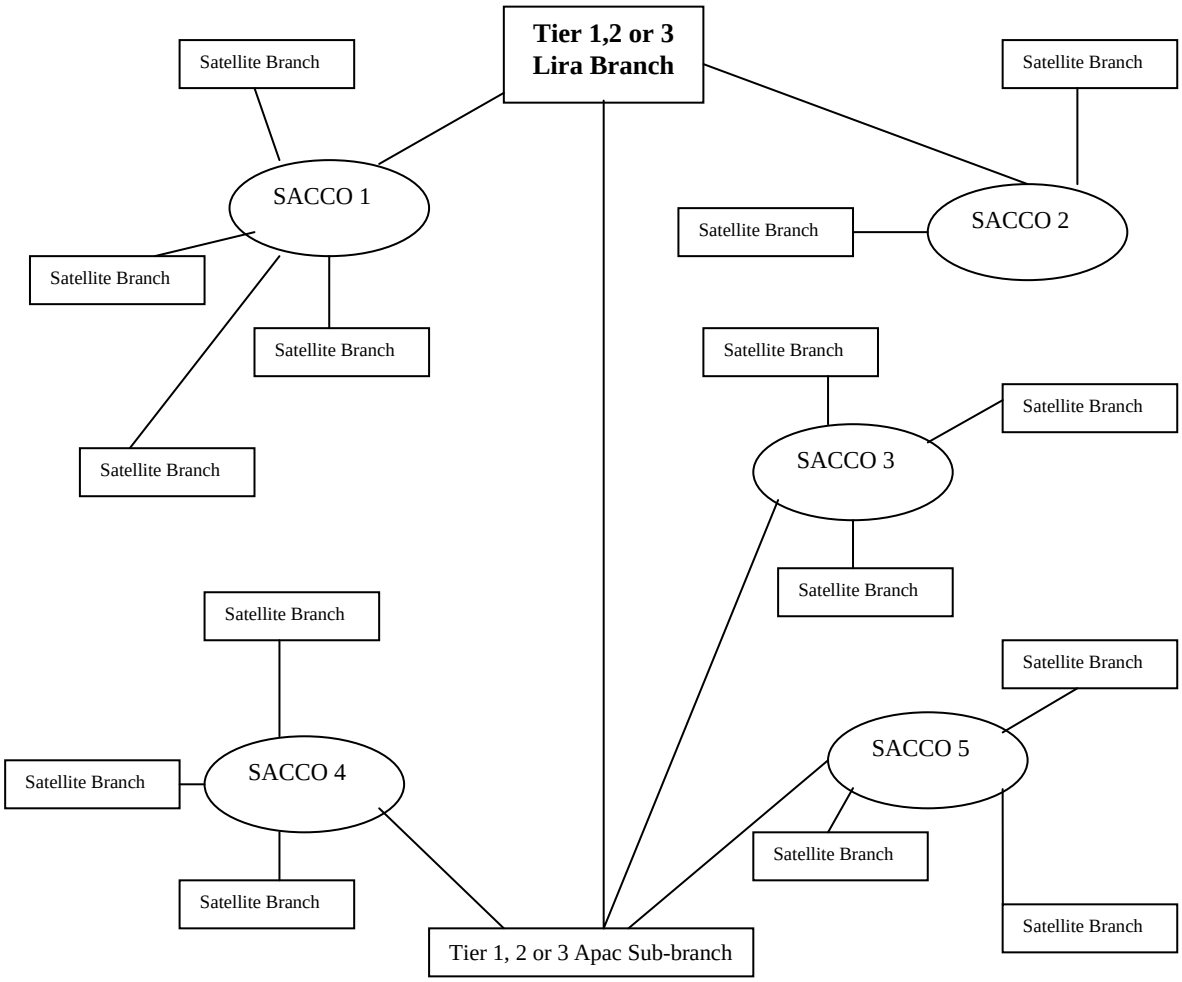
A graphic representation of expected membership growth is presented in Figure 2. Under this model it is assumed that each SACCO will only begin operations once they have 350 paid in members.[4] Membership increases (quarterly) on a linear basis to reach 1,010 by the end of 12 months and 2,006 by the end of 24 months. Growth data is presented for both an individual SACCO and consolidated for the expected five SACCOs.

[4] Paid in members are those that have paid their entry fee, purchase the minimum value of shares and deposited the minimum saving amount in their account.



As demand for financial services increases, with the growing number of hybrid sunflower farmers, the SACCOs will have the option of opening satellite branches in areas where membership would equal or exceed 500 – 1,000 members. This would bring the financial services within 8 kilometers of all members and would allow the SACCO to grow to an optimal size of 5-8,000 members. Figure 3, shows what the SACCO network would look like once satellites branches are created.

Figure 3 SACCO – Tier 1, 2 or 3 Support Model with Satellite Branches



2.2.3 Promotional Strategy

It is very important that promotion efforts make a maximum use of the current strategy employed by Mukwano for the hybrid sunflower production; i.e., using a weekly radio program and some form of voluntary promoter to sensitize and train potential members. Initially, the radio program could be linked to the Mukwano weekly broadcast[5] and then separated to provide for more time to explain the SACCO concept. A series of programs should be developed to reinforce principles such as self-help and mutual assistance and train the listeners on the:

- Advantages of a SACCO for its members and the surrounding community;
- Steps to become a member (membership fee, share price, minimum savings);
- Importance of savings and developing habits of thrift and prudent use of resources;
- Constructive use of credit, which results in economic, social, and family betterment;
- Development of SACCO human resources and leadership skills;
- Set up and administration of a successful SACCO; and

[5] Mukwano could use the SACCO concept as a reward or encouragement for productive hybrid sunflower producers.

- Managing the SACCO as a business; i.e., to ensure that it covers its operating and financial costs.

In addition, a full time SACCO trainer/promoter will need to be hired, for a period of one to two years, to drive the promotion and set up efforts. This trainer/promoter will initiate a number of local people on how to build a SACCO, using a pre-registration training process to teach founding committee members the SACCO is formed. This training will enable the founding members to understand and drive the SACCO formation process. It prepares them for the selection of board officers and committee members. Widespread experience confirms that SACCO are likely to fail unless the members really understand how the SACCO works and what their relation to the SACCO is; i.e., loyalty and co-ownership.

It would be helpful to train the two Lira USAID/APEP agents to ensure that they correctly understand the SACCO formation process and its objectives. They are well respected by the producer groups and sunflower farmers. As such, they can serve as a trusted source of information to respond to community member questions, when they are in the field, and provide valuable support to the SACCO trainer/promoter.

Once the pre-SACCOs have reached at least 350 members, the trainer would organize the formation meeting and help the communities prepare and submit the documents required for registration under the Cooperative Act. He would then organize training for the newly elected board members, assist the boards in selecting managers and other staff members and ensure that they are all properly trained. It would be advisable to link these new SACCOs with one or more of USAID/Rural SPEED's Western Ugandan SACCOs, who could provide on the job training in their offices, before the new staff started operations in their own SACCOs.

2.2.4 Board Selection and Training

Generally, the powers and duties of the board of directors are used to manage and control the affairs of the SACCO; i.e., to ensure activities are carried out throughout the year to achieve the financial objectives and to implement resolutions passed by members at general meetings. Directors should be honest, prudent (careful), reliable and hardworking members who have the interests of other members as a guide for all their actions and not one of self interest and exploitation of others. The desirable qualifications are:

- Trustworthy people who are interested in the development of their community, have good judgment, are of sound moral character, are respected by others, and able to meet basic educational requirements.

- Those who understand the constitution, by-laws and are capable of working as part of a team. Each director should be able to present his/her ideas forcefully, but be willing to accept group decisions and work for a common goal.

- Those who are willing to learn what the job entails. This requires knowledge of the SACCO policies and procedures and the acquisition of other skills, such as committee work and planning.

It is advisable to insist on having women directors on the Board, perhaps roughly in same proportion as the numbers of male and female members in the SACCO. It will also be wise to ensure that each part of the community is represented on the board; i.e., farmers, traders, teachers, etc. To ensure good management, it is necessary that all involved parties should

have carefully defined powers and duties, and should understand them. The SACCO should elect a chairperson, a vice-chairperson, a treasurer, a secretary and three to five more members. Ideally, the board would have between seven and nine members.

The chairperson is the team leader of the SACCO and the Board. He has many legal, management and leadership functions. He should:

- Conduct meetings in an orderly, interesting manner, with tact, fairness and without undue waste of time;
- Encourage sound board group decisions and follow up on their implementation;
- Be sensitive to SACCO members' needs and promote good relationships within the community;
- Understand the management system and foster good relationships between members, board and staff;
- Be knowledgeable about co-operative principles, the SACCO operations and act as SACCO spokesman with the general public, government departments, and representatives of other organizations connected with the SACCO.

The vice-chairperson is the "understudy" for the chairperson and should be familiar with all of his/her duties and have similar qualities as the chairperson. He/she stands ready to take over from the chairperson, if at any time the chairperson is unable to perform his/her duties.

The secretary must have the ability to accurately record minutes of meetings, especially decisions and answer any correspondence for the board. Since the secretary is the recorder or writer for the SACCO, he/she should therefore be able to read and write well and be well organized in filing documents.

The treasurer should have some bookkeeping experience or be suitable and willing to be trained, so that he can understand the financial operations and position of the SACCO. He should be able to monitor and assist in the SACCO's financial operations and understand the work of the manager, as necessary. The treasurer should be strictly honest, and willing to "blow the whistle" if he finds any mismanagement.

The SACCO trainer/promoter would be responsible for the basic training of all of the board members and functions. After the initial training, it would be advisable if a short study trip could be organized to a well functioning SACCO to learn from their board. Contact phone numbers could be exchanged to give the new board members a number of resource people to answer management questions, which will arise in the normal course of business.

2.2.5 Roles and Responsibilities of SACCO Committees

In addition to the board, each SACCO will have to put in place an Internal Control Committee (ICC). The ICC's purpose is to monitor and verify the administrative and financial decisions made by the board, the committees and SACCO staff. Its members are selected at the annual general meeting and are independent of the board of directors. It consists of a chairperson and two members. The ICC meets as required or at least monthly, to plan its work and prepare a report on its activities for the Board. The SACCO shall strive to ensure that all of the members of the ICC have bookkeeping, accounting or auditing knowledge. If the members of the committee do not have this knowledge, the SACCO will take the necessary steps to provide this training. The ICC's duties include:

- Periodic examination of member savings accounts to verify entries and balances;
- Checking that operations are being performed correctly by the manager and cashier, according to predetermined routines, which including cash reconciliation;
- Inspecting documents and auditing SACCO functions at least quarterly and more frequently as appropriate;
- Ensuring that loans are prudently handled, collected and repaid in a timely manner;
- Liaising with the bank regarding deposits, withdrawals or other internal audit matters;
- Verifying the credit committee's operations;
- Investigating complaints or appeals by members concerning their SACCO transactions;
- Calling special member meetings to consider any violation of the provisions of the constitution, by-laws or cooperative law, which it deems to be unsafe or unauthorised;
- Recommending to the board the suspension of any director, committee or staff member, pending a special general meeting of members to consider such suspension;
- Recording minutes for all meetings;
- Providing reports and making recommendations to improve policy and procedures;
- To ensure that the audit report is presented to the general assembly at least once per year;

In addition to the ICC, two other standing committees are recommended; i.e., a credit committee and an education and marketing committee. Committee members are selected from among the board members. The roles and responsibilities of these committees are detailed in Appendix H.

2.2.6 Management Profiles and Job Descriptions

Initially, the SACCO should begin operations with four staff members to ensure that they can meet the expected demand of 2,000 members in the first two years of operations. Others positions may be added, when needed, and as income is generated from operations. The four positions are manager, accountant, loan officer, and teller. Appendix I contains sample job descriptions and recruitment criteria for these positions. If the accounting and financial management back office services are provided by a Tier 1, 2 or 3 institution, then the SACCO would not need to recruit an accountant.

2.2.7 Accounting and Portfolio Tracking Systems

No matter what decision is taken, on whether to partner with a Tier 1, 2 or 3 support institution, or not, the SACCO must have a strong and performing accounting and financial management system. The potential to have 5,000 or more members, implies that the SACCOs should start their operations with a computer based system and not waste time and money converting from a manual system to a computerized one in one or two years. It would be preferable to make a significant investment to create an excellent model, which could be linked to formal banking structures and possibly serve as a cash point.

SACCOs should start their operations with a computer based system and not waste time and money converting from a manual system to a computerized one in one or two years.

The choice for an appropriate and effective software system must take into account the future income streams and the current cost of the investment. While several of the Western Uganda SACCOs currently partnered with USAID/Rural SPEED use the Financial Solutions software

package, all of them are dissatisfied with the results. Unless USAID/Rural SPEED is willing to invest a significant amount of time and potential financial resources, it would not be advisable to use this package. The system must be able to handle a double entry, accrual based accounting system and produce financial reports, which conform to the recommendations covered in the USAID/Rural SPEED's accounting and financial management training course and it's Portfolio Monitoring Tool (PMT). Loan portfolio tracking is an essential element of the performance monitoring system and needs to follow international (CGAP) and Ugandan best practices. The use of a banking based system, such as Equinox software, would provide the SACCOs with the proper amount of systems and functionality to allow for rapid expansion of services, as demand is created from the growing number of hybrid sunflower producers.

2.2.8 Operational Policies and Procedures

Instead of reinventing the wheel, the SACCO should be inspired by existing SACCO operational policies and procedures; i.e., accounting and financial management, credit policy and procedures, administrative policy and procedures (membership fees, shares, savings, etc.), and human resource management. The existing documents would be reviewed and modified to fit the specific operational needs of these model SACCOs.

2.2.9 Savings and Credit Products

Savings:

The primary focus of the SACCO must be to mobilize savings to be used to provide loans to members. When a member joins the SACCO, he/she will open an ordinary (demand deposit) savings account, which functions like a current account. The member can deposit and withdraw at will. Additional savings products will be available to meet his/her longer term goals and which would carry an interest rate and require larger sums and longer terms.

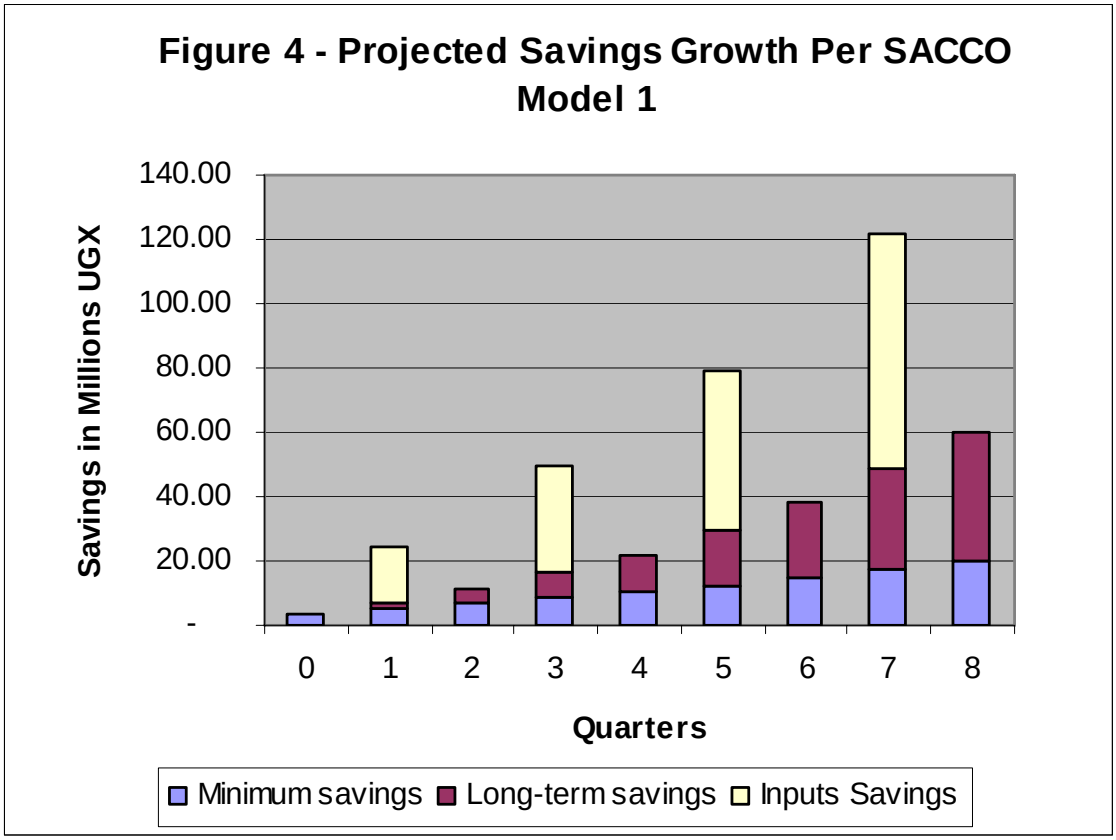
First and foremost among the specific savings products would be a "sunflower inputs savings account."

Given the importance of savings to purchase inputs, such as hybrid seeds, herbicides and possibly fertilizer, it is important to create a number of specific savings products, in addition to the ordinary (demand) savings, which is opened when one joins the SACCO. First and foremost among the specific savings products would be a "sunflower inputs savings account." The purpose of this account to set aside cash to purchase of next season's hybrid seed, herbicide and other inputs needed for sunflower production. The long term goal would be to build up this savings account so as to be able to finance at least 50% of all investment costs for sunflower production from it for three to five acres of production. Direct transfers could be made from this account to purchase seed or other inputs from Mukwano or from any other suitable supplier. It is recommended that at least a third of the net income from sunflower should be saved for the next growing season expense, in addition to the 14,000 UGX per acre planted, needed for the purchase of the hybrid seed. This would leave a third for consumption and a gradually increasing amount for long term savings, as production and yields increase.

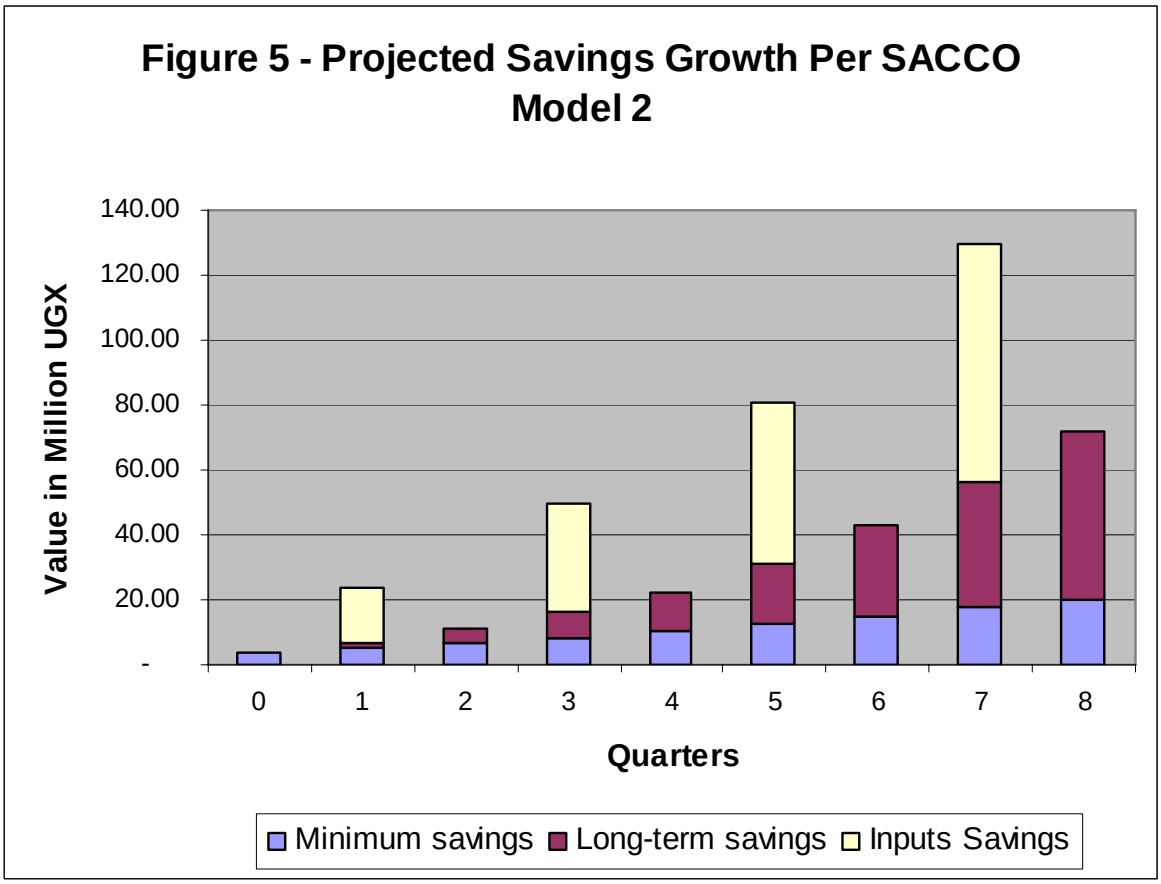
Using the data collected on sunflower expenses during the survey, an average total cost was calculated and used to estimate net income and savings capacity. This model assumes that the savings capacity of farmers is based on 1, 1.5 and 3 acres of production (Appendix J). It is expected that most farmers have between 1 – 1 ½ acres of hybrid sunflower production

currently and will progressively expand to a maximum of 3 acres, per season, using family labor and the reinvestment of a third of net income.

Figure 4, assumes that the sunflower growers savings capacity remain approximately the same over the first two years; i.e., that they will pay the 10,000 UGX in minimum savings and then deposit 5,000 UGX each quarter for the next eight quarters. It further assumes that the growers put the value of the following season's hybrid seed costs and a third of net income into a special input saving account for the following growing season. This savings account would remain, on average, for three months then be spent. After harvest it would be replaced at the same level. Increases in savings come from increased membership only. On average, a SACCO would have approximately sixty million (60,000,000) UGX in longer term savings by the end of year 2.



If one assumes that the increased access to a safe place to save provides for greater investment in average production, then the rate of savings is likely to increase after the first year. Figure 5 model the case where members begin to double their long term savings, per quarter, after being a SACCO member for twelve months. On average, a SACCO would have approximately seventy-two million (72,000,000) UGX in longer term savings by the end of year 2. This would mean twelve million (12,000,000) UGX more savings than model 1.



Eventually, as income increases the SACCO will want to offer fixed deposit savings accounts to ensure that most of the longer term savings can be used to lend to members. If it remains in a demand savings account, then the risk is high that the members will wish to withdraw the funds in less than 6 to 12 months and therefore limit the funds available for reinvestment in loans to members.

Credit:

While credit is likely to be a strong motivating factor for joining a SACCO, it needs to be carefully implemented and deemphasized. Credit should be made available through a range of products and not a single one-size-fits-all product. The agricultural loan products need to fit the technical specifications of the sunflower production without over-estimating the repayment capacity of the individual farmers. It would be risky to lend more than fifty percent of the total estimated cost of production. Even then, borrowers should start with small discrete loans for specific activities, like planting or weeding, where the time savings would have the greatest effect on the yield. Farmers should not be looking to borrow to expand acreage until they have maximized their yield per acre planted. This is not well understood by the farmers interviewed and needs more training.

It appears that there are a number of factors, which have to be addressed to improve yield and bring them up to the 1,200 kg/acre level. Each of these factors might need finance.

- Good land preparation

  The most appropriate and least expensive technology for improving the land preparation is to use ox plows. It was clear that many more farmers would use ox-plowing if finance was available. This would mean some people buying the plows and others simply paying those with plows to prepare their fields. While many people have spoken about using tractors, the current cost (100,000 GX per acre for plowing and harrowing) does not justify the investment for farmers growing 1 – 3 acres. Perhaps for those farmers who plant 5 – 20 acres of sunflower could effectively use tractors; however, their number is very small.

- Quick and timely weeding

  As stated earlier, weeding with family labor takes a significant amount of time. The time delay in weeding has a direct effect on reducing yield. Therefore, one of two methods should be employed to minimize its negative effect on yield. Either a better tool, such as the ZamWipe (Figure 6) with round-up max, should be used to decrease the time needed or outside labor should be employed. Using the herbicide to weed would also eliminate the need to weed a second time. Either of these options will involve access to loans, since farmers rarely have cash resources at the time weeding is done. Finance would be needed to rent or purchase the tool and to purchase the herbicide. If they continue to use manual labor to weed then the loan would be to pay for that labor.

  Figure 6 ZamWipe Weed Killer

- Fertilizer

  While farmers stated that they understood the advantages of using fertilizer, few if any have actually used fertilizer on their sunflower fields. The recommended dosage is 25 kg/acre of DAP and 50 kg/acre of Urea, however, farmers only talked about using DAP at the time of planting. There may be a reluctance to use urea because of the risk of burning the crop, if applied at the wrong time and with an incorrect dosage. More training may be necessary if the yield increase from urea is to be achieved.

The reason stated most often as to why the farmers are not using fertilizer was a lack of cash to purchase it. While this may be the primary reason, it should be noted that fertilizer is not readily available at the farmer level, even if funds were not lacking. Before a loan product for fertilizer could be introduced, someone to source and deliver the fertilizer to the farmers would need to be identified. While Mukwano has expressed an interest in eventually doing this (in a similar manner to the hybrid seed procurement), they are not interested to providing it as seasonal credit. They would also only get involved in the procurement and delivery, if the quantity demanded was significant. Without credit the demand will remain low.

- Planting

  While planting needs to be done quickly to take advantage of the rains, it would be interesting for farmers to have access to some form of appropriate mechanical planter, which could be pulled by oxen or by hand. These could be purchased by groups or individuals and rented out to others. Currently, many farmers work in groups to plant in each others fields. This is probably as effective as is needed for farmers producing 1 – 3 acres of sunflower but is less efficient for farmers growing five acres or more. Providing finance to pay for labor would only make sense for those farmers planting more than 3 acres.

- Threshing

  In addition, it would be interesting if a reasonable cost threshing machine were available. This could be purchased (loan) by a site coordinator and rented out to the farmers. This would speed up the threshing process and lessen the amount of dirt, which is delivered along with the sunflower seed. The thresher rental fees and margin from the sunflower seed purchased by Mukwano would allow the loan to be repaid in two years or less, depending upon the purchase price. This is certainly not a priority but it would have a niche market, as the number of site coordinators increases.

The loan product for sunflower production should be a multi-stage disbursement product, since there are at least three discrete times at which finance is needed; i.e., plowing, planting with fertilizer, and weeding. It is highly likely that a lump sum loan given at the time of plowing would be used for other household expenses rather than being saved to meet planting and weeding costs, which occur one or more months in the future. With this loan product the SACCO would have the option of giving all the phased payments to someone, who is expanding from 3 to 5 acres, or using only a specific phase, such as weeding, for individual growing l to 3 acres of sunflower. Eventually, other loan products could be developed for other crops; however, sunflower should be the priority unless resources exceed demand.

The SACCO needs to take into account the inherent risk in agricultural lending and finance a maximum of 50% of the total expected costs of production. The loan product would have a term of 3 to 6 months depending upon which production stage or stages are financed. Individuals with documented yields above 850 kg/acre would be the first loan recipients. Farmers with lower yields could only qualify for smaller loans; i.e., for weeding only. Loans size should be tied to a history of previously higher yields to encourage the better farming and lower the overall risk. This would require that the farmers keep written records to show input timing and yield. Loans for planting or weeding could be for the full amount of the expected cost, since only one phase of the production cycle is being financed. The total for these two phases is less than 50% of total production costs.

It is estimated that the total cost of growing one acre of sunflower, using the data collected from the field visits and not including land rental and land clearing, would be:

	Avg. cost per acre
Plowing	59,000
Planting	17,900
Fertilizer	71,000
Weeding	22,100
Total production cost	170,000

It is going to be very difficult to justify providing larger loans to growers, who must rent land to expand. Land rental makes the operation less profitable and riskier, especially if there is drought. Those farmers should be expected to have savings to cover land rental costs before qualifying for a loan and to be already achieving maximum expected yields.

Land rental makes the operation less profitable and riskier, especially if there is drought.

Since ox-plowing is the most cost effective and realistic form of improved plowing at this time, it would be wise to offer to them an ox-plow loan. This loan would only be given to farmers, who already own oxen and can demonstrate that they know how to properly care for the oxen. Loans for oxen and a plow are too expensive and risky. Taking proper care of oxen is extremely important and not guaranteed, if the owner has no previous experience. Depending upon the cost of the ox-plow,[6] the loan term would vary from 1 - 2 years with payments made every six months; i.e., to take into account the cash flow from the sale of the sunflower harvest. Over time, these farmers would be able to sell the plowing services and make additional payments.

It would be interesting to find an appropriate threshing machine. Loans for this equipment could be given to site coordinators, who already have greater income through buying the production for Mukwano. The site coordinators could rent out the threshing machine to farmers. They might even eventually spin off a small business by buying several machines and setting it up as a separate service. Individual farmers who cultivate more than 10 acres might also be candidates for purchasing the equipment, depending on their expected net income. The loan term should not exceed three years or six growing seasons. Appendix L provides a hypothetical example of a threshing machine loan, which might cost 500,000 UGX, however, no real estimate or model were found during this consultancy. Payment frequency was determined using Mukwano's sunflower purchases for 2004 and 2005 (Appendix M) to determine the months in which the site coordinators have the most income.

Finally, while there was a general expression of interest in acquiring seed and tarpaulins on credit, the cost of these items is not beyond the means of the farmers, if savings products, as suggested previously, are available.

2.2.10 Program for 1-year of ongoing USAID/Rural SPEED support to the SACCOs

If the SACCO promotion in the Mukwano hybrid growing areas is to succeed, and if this successful model is to be replicable, then USAID/Rural SPEED will need to ensure that

[6] It was indicated that an ox-plow costs approximately 180,000 UGX.

sufficient promotion and training resources are put in place to train the board members, committee members and management staff. A possible work plan would be:

Months 1 – 3
- Negotiation for the provision of back office accounting and financial management system from a Tier 1, 2 or 3 institution
- SACCO promotion and founding committee member training;
- Founding committee set membership fee, share price and minimum savings;
- Collection of membership fees, shares and minimum savings;
- Target minimum membership: 350 paid in full;
- Radio promotion efforts and village meetings.

Month 4 -6
- SACCO founding general meeting held;
- Election of board members and selection of committee members;
- Submission of documents for registration;
- Office equipment and rental agreement;
- Hiring of SACCO staff;
- Training of board and committee and staff;
- Training visit(s) to functioning/performing SACCO;
- Continued

Month 7 -12
- SACCO focus on savings mobilization and membership growth
- SACCO issues first short-term loans
- SACCO produces financial reports
- Board training on how to read and interpret financial reports (income statement, balance sheet, delinquency reports, PMT, etc.)

During this entire process, USAID/Rural SPEED will need to hire a SACCO trainer/promoter full time to ensure that the transfer of management skills is effectively done with the board, committee members and staff. A the same time, USAID/Rural SPEED will need to contract with a Tier 1, 2 or 3 institution to provide the accounting and financial management back office services. This needs to be ready within three months, so that there is no delay, if the growers mobilize membership as quickly as is expected.

3. Conclusions and Recommendations

By the end of the survey phase of this consultancy, it became clear that there are strong economic and social motivations to provide access to financial services in the communities where hybrid sunflower is being grown. Although the amount of cash generated by the sale of sunflower production is significant, most of the money is used for consumption purposes due to a lack of alternatives for savings. Of the part that is saved, most is invested in livestock or simply hidden somewhere in the home. Every community visited said that they lacked safe places to save within a reasonable distance from their homes. Their definition of a reasonable distance is between five to eight kilometers. While banks are considered safe, they are too far away and too expensive for most of the population, who would like to save small amounts on a regular or periodic basis. Therefore, the savings and credit cooperative model would be the most appropriate channel for delivering savings and credit services in these rural areas.

The proposed SACCO model must focus on potential for economies of scale in deciding upon the location of the SACCOs. There are currently 21,000 farmers interested in growing hybrid sunflower for Mukwano, unfortunately seed availability is not yet sufficient to meet this demand. Approximately 8,000 farmers are already receiving the hybrid seed, which is sufficient to begin SACCO development. Once the SACCOs are in place and Mukwano meets more of the demand for hybrid seed, the new farmers will be able to join the SACCOs immediately. To meet a potential demand of 21,000 members it will be necessary to have a small number of strategically located SACCOs, each of which would have between 3,000 and 5,000 members.

It is therefore recommended that:

1. A savings and credit cooperative system is promoted in the Mukwano hybrid sunflower area of Lira and Apac districts.

2. The proposed SACCO model focuses on potential for economies of scale in deciding on the location of the SACCO. There are currently 21,000 farmers interested in growing hybrid sunflower for Mukwano of which approximately 8,000 are already receiving the hybrid seed. These 8,000 farmers are sufficient to begin SACCO development.

3. To meet a potential demand of 21,000 members it will be necessary to have a small number of strategically located SACCOs, each of which would have between 3,000 and 5,000 members.

4. The criteria for SACCO site selection are;
   - Number of hybrid sunflower grower (minimum of 350);
   - Total acreage planted;
   - Number of potential sunflower growers, if seed were available (minimum of 1,000);
   - Total active population served by the cluster area (minimum of 3,000);
   - Availability of suitable physical infrastructure (building);
   - At least two years of hybrid sunflower growing experience (4 growing seasons);
   - Amount of hybrid seed pre-purchased;
   - Amount of sunflower seed produced and sold to Mukwano;
   - Existence of producer organizations, which were trained by USAID/APEP;
   - Higher yield per acre, based on Mukwano data;
   - Highly motivated population;
   - Pool of educated and trainable people to serve as board members;
   - Ability to recruit university degree candidates for manager and loan officer positions.

5. While initial promotion will focus on sunflower producers, it is advisable to market the SACCO to other community members who have additional economic activities besides farming, to have a diversified pool of resources for both savings and lending.

6. The promotion strategy should focus on using a radio program to inform and sensitize potential members, in addition to trained volunteer promoters (similar to lead farmers).

7. Further technical training and mentoring support should be provided by a full time SACCO organizer/trainer, for a period of one to two years.

8. The primary focus of the SACCO must be to mobilize savings to be used to provide loans to members. It is therefore important that specific savings products are created, first and foremost of which is a specific savings product for sunflower inputs. The long term goal would be to build up this savings account so as to be able to finance at least 50% of all investment costs for sunflower production.

9. While credit is likely to be a strong motivating factor for joining a SACCO, it needs to be carefully implemented and deemphasized.

10. Credit should be made available through a range of products and not a single one-size-fits-all product.

11. The initial loan product for sunflower production should be a multi-stage disbursement product, since there are at least three discrete times at which finance is needed; i.e., plowing, planting with fertilizer, and weeding.

12. Loans should be granted to better farmers first. Using yield and production data as a criteria for lending amount would significantly reduce the agricultural risk.

13. Investment from both savings and loans should focus on maximizing yield per acre (ox-plowing, tractor plowing, fertilizer, herbicides) before allowing for loans to expand acreage.

14. Farmers must be encouraged to keep written records to be able to evaluate costs and calculate net profit or loss.

15. SACCOs should start their operations with a computer based system and not waste time and money converting from a manual system to a computerized one in one or two years.

16. Outsource the SACCO accounting and financial management system to a formal banking sector partner rather than creating and managing the entire financial system at each SACCO, given the high risk of their losing member savings before they become fully competent.

17. USAID/Rural SPEED should issue a RFP to identify financial institutions capable of providing back office support in accounting and financial management.

18. Finally, given that areas visited in Lira and Apac showed positive signs of willingness to actively support promote and join a SACCO, USAID/Rural SPEED, Mukwano, and USAID/APEP should move as quickly as possible to promote these model SACCOs before the next growing season.

Appendix A List of Documents Consulted

1. Mechanization – The Way Froward to Poverty Eradication and Better Living.

2. Mukwano Map Farmer Contract, February 2005.

3. Mukwano Site Coordinator Agreement, 2005.

4. POPP – Partnership for Oilseed Production and Processing – A market-led economic development strategy for 13 districts in Northern and Eastern Uganda – SCOPE Briefing paper – February 2005.

5. Roles and Qualities of a Site Coordinator, Mukwano document.

6. Sunflower Value Chain for Current Case Scenario in Lira – excerpt from a USAID/Rural SPEED document.

7. Savings Habits, Needs and Priorities in Rural Uganda, USAID/Rural SPEED study – September 2005.

Appendix B List of Persons Consulted

USAID/APEP

David Luseesa	Commercialization Specialist
Edward Gitta	Producer Organization Specialist
Kenneth Otima	PO Trainer – Lira
Dorcus Adul	PO Trainer – Lira
Elly Kyaligonza	Trainer – Masindi
John Chrisostom Tusiime	Trainer – Masindi

ASPS

Jaap Blom	Team Leader

CMF

Paul K. Nyajairu	Chief Executive Officer
Walter Tukahiirwa	Chief Financial Officer

Mukwano Group of Companies, Uganda

Ibnul Hasan Rizvi	Chief Executive Officer
Mr. Pachhaya (Chowdry)	Operations Manager Lira
Emmanuel Rukunda	Regional coordinator – Masindi District
David Opwonya	Regional coordinator – Lira District
Richard Ogwal	Regional coordinator – Apac District

Lira/Apac

Robson Okello	Site coordinator
Lawrence Adupa	Site coordinator
Francis Opio	Site coordinator
Alias Anyeki	Site coordinator
Yuventino Orac	Site coordinator
Augustine Okello	Site coordinator
Santo Ogwang	Site coordinator
William Ojok	Site coordinator
Hasan Ocen	Site coordinator
Betty Ameny	Site coordinator

Masindi

Joseph Munuobi	Site coordinator
George Soita	Site coordinator
Joseph Obua	Site coordinator
Rashid Okecha	Site coordinator
Denis Japien	Site coordinator
Apollo Epeebon	Site coordinator
Joseph Ojok	Site coordinator
Jimmy Mucwa	Site coordinator
Deo Kwesiga	Site coordinator
Arch Angle Barwoge	Site coordinator
Agnes Eyatoru	Site coordinator
Rehema Atahura	Site coordinator
Jona Bera	Site coordinator

USAID/SCOPE

Brian Buckley	Trade and Investment Facilitation Specialist
Taibu Nakueira	Marketing and Business Development Specialist

Appendix C List of Cluster Centers

Apac District

1. Abongomola
2. Acaba
3. Apac
4. Ayer
5. Iceme
6. Inomo
7. Loro

Lira District

8. Adekowok
9. Amac
10. Lira

Masindi District

11. Diika
12. Diima
13. Kigumba
14. Kiryandongo
15. Pakanyi

Appendix D Field Questionnaires

Questionnaire 1 Farmers and producer organizations

1. How were you chosen/selected to become a Mukwano hybrid sunflower farmer?
2. What kind of technical support do you receive from Mukwano site coordinators?
3. How many farmers are currently in your area and how many organized groups?
4. What is your relationship to other farmers in the group/area?
5. How would you define a “better” sunflower farmer? Why?
6. Is there potential do you have to expanding your sunflower production?
7. What would you need to expand your sunflower production?
8. Do you know if your sunflower production is profitable?
9. Describe the key leaders in your producer organizations. How were they chosen?
10. How willing are you to listen to the site coordinator’s advice related to improving your sunflower production?
11. What do you see as the main stumbling blocks to increasing your production?
12. What specific problems do you have with sunflower production?
13. What other crops do you want to grow besides sunflower? What are they used for?
14. What other economic activities do you or someone in your household do currently?
15. What access do you have or have had to borrowing? What are the terms and conditions?
16. How do you save your money? What are the terms and conditions? Do you belong to a ROSAC or an ASCA?
17. Do you see a needs/priority for a safe place to save?
18. Do you know/understand what a savings and credit cooperative (SACCOs)?
19. Would you actively support, promote and join a SACCO if it were deemed to be viable and desired by the others farmers?
20. Would you be willing to serve as a board member of the SACCO? If not, why not?
21. Where should the SACCO office be located? Why?
22. How many of the people present have mobile phones?
23. Have any of you received remittances from someone? If , yes please provide details.

Questionnaire 2 Site coordinators

1. How were you selected to be a site coordinator?
2. How do you select new farmers to join the program?
3. What kind of technical support do you provide to the farmers?
4. Do you keep written records?
5. What are your expenses?

Questionnaire 3 Production Organization Trainers (POT)

1. How are the work areas selected?
2. How do you work with the producer organization and farmers?
3. What kinds of technical support do you provide to them?
4. How many areas do you work with currently?
5. Which areas do you think are the most profitable? Why?
6. What clusters/areas do you think have the most potential?
7. Describe elements for good groups/areas. How do you contact them?
8. How willing are the groups/farmers to listen to your advice for improving production?
9. What do you see as the main stumbling blocks to increasing production and income?
10. What are the farmers’ most frequent complaints, with respect to sunflower production?

11. What other cash crops should the farmers produce besides sunflower? Why?
12. What other economic activities do you think the farmers could invest in?
13. What are the farmers' most frequent complaints about access to financial services?
14. What do you think are the savings needs/priorities of the farmers and their families?
15. What credit products would like to see made of available to the farmers?
16. Would you support the idea of the creation of a MFI? Would you be willing to be trained?
17. Do you know/understand what a savings and credit cooperative (SACCOs)?
18. Would you actively support and promote a SACCO for your grower clusters if it were deemed to be viable and desired by the farmers?
19. If you had to choose 5 areas for SACCOs, where would they be and why?

Questionnaire 4 Mukwano field manager

1. What are the locations of grower clusters
2. What is the average small holding size among your farmers?
3. What is the expected production per acre?
4. How do you provide/sell seeds to the farmers? What is the cost per kilo?
5. Which grower clusters are the most profitable? Why?
6. What do you see as the main stumbling blocks to increasing production and income?
7. What is/are the most frequent complaint(s), with respect to sunflower production?
8. What clusters/areas do you think have the most potential for expanding production?
9. What do you think are the savings needs/priorities of the farmers and their families?
10. What credit products would like to see made of available to the farmers?

Appendix E Mukwano Site Coordinator Selection Criteria

Roles and responsibilities:

1. Give reports of activities to Mukwano;
2. Sensitize and mobilize farmers within his/her area for demonstrations and other project activities;
3. Visit and advise farmers;
4. Deliver demonstration kits to lead farmers;
5. Keep proper records of demonstrations;
6. Train farmers;
7. Motivate farmers;
8. Link farmers to market for their farm products;
9. Participate in all activities;
10. Able to plan activities well; and
11. Identify good lead farmers.

Qualities:

1. Be available at all times for demonstrations and other project activities;
2. Transparent;
3. Cooperative;
4. Able to make good judgment on his/her own and with other;
5. Tolerant;
6. Exemplary of his/her own community;
7. Have the willingness to work (ability and good attitude);
8. Be teachable;
9. Be able to teach farmers;
10. Should be able to keep proper records of demonstrations;
11. Should be an active farmer himself/herself;
12. Has an “O” level of education (11^{th} grade); and
13. Has a bicycle.

Appendix F Mukwano Hybrid Sunflower Farmer Contract

2021

mukwano FRIENDSHIP	MAP FARMER CONTRACT	Doc. No.	MAPR01
		Revision date:	15/02/2005
		Doc Version:	01

THE REPUBLIC OF UGANDA

STANDARD CONTRACT FOR THE PRODUCTION AND MARKETING OF THE 'HYBRID PAN 7351' VARIETY OF SUNFLOWER

.....

THIS AGREEMENT is made this _____ day of _____ 2005 between:

A.K. OILS & FATS (U) LTD of P.O. Box 2671 Kampala (hereinafter referred to as '**Mukwano**' which expression shall Where the context so admits include associate, assignees, and successors in title) of the one part; AND

_____ (hereinafter referred to as '**the Farmer**' and whose better particulars appear as under) of the other part.

RECITALS.

1. Mukwano desires to procure high-grade sunflower grain of the hybrid PAN 7351 variety and is willing to facilitate its cultivation by selling seeds and offering free extension services to the Farmer.
2. The Farmer is willing to buy such seeds and receive such technical assistance from Mukwano and to sell the Resulting hybrid PAN 7351 sunflower grain exclusively to Mukwano upon the terms and conditions appearing as under:

NOW THIS AGREEMENT WITNESSES AS FOLLOWS:

Mukwano's Obligations:

1. To sell to the Farmer hybrid PAN 7351 sunflower seeds , which are to be planted by the Farmer in accordance with this agreement during first and or second rainy season of this year 2005.
2. To train the Farmer in and promote hybrid PAN 7351 sunflower grain production techniques.
3. To purchase hybrid PAN 7351 sunflower grain produced by the Farmer in accordance with improved production techniques and having the following mandatory qualities: a minimum oil content of 36%; a moisture content of between 5%and 6%; an impurity content of no more than 0.2%. It is agreed and understood that the place of purchase of the sunflower grain shall be the premises of Mukwano's site coordinator.
4. To pay the farmer cash upon delivery of hybrid PAN 7351 sunflower grain at a guaranteed rate of at least Ushs 350 per kilogramme.
5. Neither Mukwano nor the farmer shall be entitled to any indemnification for consequential losses or any other like compensation except as provided by this agreement.

The Farmer's Obligations:

6. To plant and grow the hybrid PAN 7351 seed supplied by Mukwano and to dry and process the hybrid PAN 7351 grain in accordance with the improved production techniques so as to ensure high yields and quality.
7. To sell all hybrid PAN 7351 grain produce exclusively to Mukwano at the consideration agreed the hereunder. Where the Farmer sells the hybrid PAN 7351 sunflower grain produce to any third party other than Mukwano, Mukwano shall be entitled to institute appropriate legal action against both the Farmer and such third party whether severally and or jointly.
8. To continue this agreement with Mukwano during the subsequent rains/planting seasons for as long as Mukwano supplies the Farmer with hybrid PAN 7351 sunflower seed and offer extension services.
9. Where the Farmer breaches this agreement in general and Clause 9 in particular, he/she shall, over and above any damages or redress mechanism accruing in Mukwano's favour, pay to Mukwano a penalty fee equivalent to the loss thereby incurred and or suffered by Mukwano.
10. Neither the Farmer nor Mukwano shall be responsible failure to duly perform the respective obligation hereunder where such failure is due to natural calamities or other force majeure circumstances.
11. This agreement may be terminated by either party by serving the other 4 months' written notice. Mukwano shall be dully served if such notice is addressed to it and delivered to its appointed agent while the Farmer shall be dully served if such notice is delivered to the address stated below.

SIGNED by: _____

(For and on behalf of A.K. OILS & FATS (U) LTD) _____ Signature/thumbprint of the Farmer:

Name of the Farmer: _____ Farmer's I.D. No. for purpose of this agreement: _____

Village: _____ Parish: _____

Sub-county: _____ District: _____

Witnessed by Chairman L.C. I:

Signature: _____ Name: _____

Prepared by the Legal Department, Mukwano Industries (U) Ltd, P.O. Box 2671, Plot M30 Mukwano Road, Kampala
C:/Documents and Settings /Administrator/My Documents/Farmer contract.doc

Appendix G Mukwano Site Coordinator Contract

THE REPUBLIC OF UGANDA
IN THE MATTER OF THE CONTRACT ACT CAP 75

SITE COORDINATORS AGREEMENT

THIS AGREEMENT is signed this _____ day of 2005

BY AND BETWEEN

M/S A.K. OILS AND FATS (U) LTD of P.O. Box 2671, Kampala (hereafter referred to as "the **Company**", which expression shall where the context so admits include successors in title and assigns) of the one part;

AND

_____ of _____ (hereafter referred to as **"the Site Coordinator"**, which expression shall where the context so admits include successors in title and assigns) of the other part.

RECITALS:

1. The Company manufactures edible oils for which purpose it utilizes sunflower oil derived from sunflower grain;
2. The Company has undertaken downstream investments in the oil seed sector, which investment entails, inter alia, the purchase of sunflower grain mainly in the districts of Lira, Apach, Sironko, and Masindi;
3. The Site Coordinator has agreed to sell sunflower grain to the Company upon the terms conditions and understandings appearing as under:

1. ARTICLES OF AGREEMENT

1.1 It is agreed that the Company shall afford the Site Coordinator a recurring advance amounting to Ushs 1,400,000 (Say Uganda Shillings One Million Four Hundred Thousand Only) or a sum sufficient for the purchase from farmers of up to 4 (four) tones of sunflower grain.

1.2 It is agreed and understood that the Site Coordinator shall purchase sunflower grain of the hybrid PAN 7351 variety from farmers within the _____ district/area.

1.3 It is further agreed and understood that the Site Coordinator shall repay the recurring advance mentioned in Clause 1.1 hereof progressively with the advance of the sunflower season provided that at the end of such season he shall ensure that the whole amount of such recurring advance shall be fully repaid to the Company.

1.4 It is further still agreed and understood that the Company shall, at its sole discretion, determine the modalities of the repayments stipulated in Clause 1.3 hereof.

1.5 By signing this agreement the Site Coordinator accepts its terms, conditions and understandings and irrevocably acknowledges receipt of Ushs _____ to be used for the purposes stipulated in Clause 1.2 hereof in accordance with the terms of this agreement.

2. CONSIDERATION

2.1 The Company shall purchase the sunflower grain from the Site Coordinator at the following rates:

(a). Ushs 350 per kilogram of sunflower grain of the hybrid PAN 7351 variety

2.2 It is agreed and understood that where the sunflower grain offered for sale by the Site Coordinator does not fully satisfy the parameters stipulated in Clause 3.2 hereof, the Company shall have the option of

Prepared by the Legal Department, Mukwano Industries (U) Ltd, Plot 30 Mukwano Road, P.O. Box 2671, Kampala, Uganda.

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purchasing the same at the rate stipulated in Clause 2.1(b) hereof.

2.3 The Company shall afford the Site Coordinator a commission payment amounting to Ushs 10 (Say Uganda Shillings Ten Only) for each kilogram of the hybrid PAN 7351 sunflower grain that he sells to the Company.

2.4 It is agreed and understood that the prices stated in this Clause include all duties and or levies whatsoever, as may be required to be collected by the Site Coordinator, whether imposed by the municipal or central government.

3. CONDITIONS OF PURCHASE

3.1 The Site Coordinator shall ensure that the sunflower grain shall be free from any claim whatsoever and shall keep the Company indemnified against any such claim lodged by any person whatsoever with regard to the sunflower grain sold by the Site Coordinator to the Company.

3.2 Subject to Clause 2.2 hereof, the Company shall only buy sunflower grain that conforms to the following parameters: a minimum oil content of 36%; a maximum moisture content of up to 10%; a maximum impurity content of 0.2%. It is understood that where the moisture content exceeds 10% the Company shall reject the grain.

It is understood that the mentioned parameters shall be determined by the Company by any methodology as shall be deemed appropriate by the Company.

3.3 The weight of the sunflower grain submitted by the Site Coordinator for sale to the Company shall be determined by the Company, which determination shall be final and not open to challenge.

3.4 The Purchaser shall ensure that all bags in which the sunflower grain is packed are in a state fit for proper storage and transportation of the sunflower grain.

3.5 The Company shall at all times reserve the right to call back monies advanced to the Site Coordinator pursuant to Clause 1 hereof without prejudice to any prior claims attendant to sunflower grain sold by the Site Coordinator to the Company.

3.6 It is agreed and understood that the place of delivery of the sunflower grain shall be the Site Coordinator's premises.

4. RECOVERY OF ADVANCES

4.1 Where the Site Coordinator fails to repay the monies advanced pursuant to Clause 1 hereof or generally fails to fulfill his obligations hereunder the Company shall first issue him with reasonable notice prior to any recourse to any lawful remedy.

4.2 Where the Site Coordinator fails to repay the monies advanced pursuant to Clause 1 hereof the remedies available to the Company shall include a claim for interest at the prevailing bank lending rate.

5. WAIVER AND ACQUIESCENCE

5.1 No failure by the Company to exercise any of its rights or entitlements herein prescribed shall operate as a waiver of such right or entitlement nor acquiescence with any breach hereof.

6. DISPUTE RESOLUTION

6.1 It is agreed that any dispute pertaining to the interpretation and or application of this agreement shall be resolved through arbitration and reconciliation in accordance with the law governing arbitration in force in Uganda

6.2 It is further agreed that recourse to the courts of law shall be a last resort remedy.

6.3 It is further still agreed that the seat of any arbitration or related process or any litigation process shall be in Kampala and that where the Site Coordinator insists upon a different venue he shall be responsible for any and all attendant costs in connection thereto as may be incurred by the Company.

IN WITNESS WHEREOF both parties hereto have placed their respective hands and seal the date and year first above written:

SIGNED FOR AND ON BEHALF OF A.K. OILS & FATS (U) LTD

SIGNED by _____

_____

_____

Name:
Designation:
THE COMPANY

_____

THE SITE COORDINATOR

In the presence of (Name and signature):

In the presence of (Name and signature):

_____

WITNESS

_____

WITNESS

Prepared by the Legal Department, Mukwano Industries (U) Ltd, Plot 30 Mukwano Road, P.O. Box 2671, Kampala, Uganda.

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Appendix H SACCO Standing Committees' Roles and Responsibilities

Credit Committee

The Credit Committee (CC) has the responsibility to ensure that SACCO funds are secure when granting a loan. The CC must prudent when granting loans. The CC approves loan applications to members of reliable character for productive purposes. Indiscriminate lending should be discouraged since it can be harmful to members and lead to unnecessary costs and loan delinquency. The CC will set standards for approving loan applications, which do not eliminate deserving applicants. The CC should meet at least once a week to consider loan applications; however, more frequent meetings may be necessary, if the number of loan requests justifies it. The CC must have a quorum (simple majority) of its members before its deliberations and decisions are valid. The CC's function is to analyze the loan requests by being able to answer two fundamental questions about each loan request:

- **Can** the member repay the loan?
- **Will** the member repay the loan?

To answer these questions, the CC must carefully evaluate each loan request, including all of the supporting documentation, in terms of:

- **Character** of the member (good, moral person known to keep her/his word and respect obligations);
- **Capacity** of the member to run her/his business (knowledge, experience and presentation of business);
- **Capital** invested by the member in the business, which would include cash or other valuable assets that the member is willing to place at risk (invest) in the business;
- **Conditions**, which will affect the loan; i.e., business location, current customer base, market potential for product, and sensitivity of the business's cash flow to changing market conditions, etc.);
- **Collateral**, which the member pledges to guarantee the loan repayment. The collateral may be property, cash savings, external pledges from family members or relatives, or a group (mutual) guarantee.

The CC will:

- Inquire carefully and diligently into the reputation and financial condition of each applicant for a loan and the quality of its collateral, if any, to ascertain its ability to repay fully and promptly;
- Recommend to the management the approval or denial of all loan applications;
- Maintain minutes of its meetings and records of its actions; and
- Make such reports to the management and the board as may be required.

Education and Marketing Committee

The education and marketing committee (EMC) should prepare or update, annually, an organized education and training program to provide appropriate information, knowledge and skills of members. Topics will include:

- SACCO principles – self-help, mutual assistance, etc.
- Development – emphasis on human resources, development of leadership.

- Developing habits of thrift – prudent use of resources.
- Constructive use of credit – resulting in economic, social, family betterment.

The EMC will:

- Identify member educational needs and propose work plans to address those needs;
- Organize, facilitate and promote education and training of the members;
- Prepare a program for recruitment of new members;
- Identify, collect, disseminate and/or publish SACCO news for the benefit of the members;
- Develop and implement a program to promote the use of the savings and loan products;
- Create a favorable SACCO image.
- Make reports on its activities to the management and board.

Appendix I SACCO Job Descriptions and Suggested Qualifications

Job description - manager:

- Acceptance of the operational management responsibility of the SACCO, within the provisions of the Policy and Procedures Manual and decision of the Board;
- Responsibility for the day to day operations of the Co-operative;
- Develop a strong, qualified democratic leadership at the board management level;
- Direct interaction with the bank for the provision of support structures and services;
- Maintenance of accurate record and accounting systems;
- Safekeeping and maintenance of all SACCO assets;
- Maintenance of an appropriate cash float;
- Participation in the evaluation of loan applications;
- Loan administration;
- Follow-up on delinquency and defaults;
- Supervise and validate the monthly financial and performance reports;
- Analyze financial and performance reports and indicators;
- Provide financial analysis feed-back to the board;
- Produce annual financial report; and
- Fulfil all other criteria required by the Board.

Qualifications:

- A respected and trusted member of the community;
- Conduct oneself both professionally and personally so as to bring credit to the SACCO;
- University degree/diploma in business, finance, banking or accounting; and
- Able to be trained to perform the operational functions of the SACCO.

Job description – accountant (if necessary):

- Responsible for all accounting operations, including data entry and accounting software;
- Prepare daily, weekly and monthly financial reports;
- Supervise and review all purchase documents;
- Consolidate cash flow projections for all SACCO operations;
- Review payroll and issue payments in a timely manner;
- Maintain adequate cash flow for loan operation and current expenses;
- Ensure the transparency, integrity and the high accountability of all transactions; and
- Any others tasks that are required by the manager.

Qualifications:

- Requires knowledge and experience in accounting standards (GAAP), financial reporting, lending systems and asset management;
- Conduct oneself both professionally and personally so as to bring credit to the SACCO;
- University degree/diploma in accounting/finance;
- Familiarity with banking standards;
- Able to be trained to perform the operational functions of the SACCO.

Job description - loan officer:

- Is responsible for developing and managing a high quality loan portfolio.
- Identify clients and match their business finance requirements with loan products;
- Screen potential clients for eligibility, creditworthiness and business potential;
- Prepare, present and defend loan dossiers to the Credit Committee for approval;
- Monitor client businesses and loan performance; and
- Pro-actively works with problem clients to maintain a high quality loan portfolio.
- Develop/manage a high quality loan portfolio, ensuring that performance targets are met;
- Participate in marketing campaigns to increase the client base;
- Evaluate client credit demand and propose appropriate loan sizes and terms;
- Explain to clients how to manage credit and monitoring their understanding of the impact of debt on their businesses and households;
- Be responsible for maintaining complete, accurate and timely loan files;
- Deliver information and ideas to clients and prospective clients;
- Deliver value to clients, by providing information/problem solving skills to their business;
- Scan the micro/small business market to gain market intelligence and ensure that products and services remain relevant to clients' needs;
- Ensure that loan payments are made on time;
- Develop/implement effective problem loan collection strategies for delinquent borrowers;
- Provide constructive feedback about lending methodologies, products and office administration in order to improve efficiency and effectiveness;
- Produce weekly and monthly work plans and achievement reports; and

Qualifications:

- Requires knowledge and experience in accounting standards (GAAP), financial reporting, lending systems and asset management;
- Conduct oneself both professionally and personally so as to bring credit to the SACCO;
- University degree/diploma in accounting/economics/finance;
- Ability to deal tactfully and effectively with all people, men and women;
- Good written and oral communication skills; and
- Able to be trained to perform the operational functions of the SACCO.

Job description – cashier (if necessary):

- Receive and process savings and loan account transactions;
- Receive and disburse cash for savings and loan transactions, as required;
- Verify client identity before transactions;
- Ensure that clients sign all required documents before they leave the banking office;
- Note and verify significant information as required by SACCO policy and procedures;
- Ensure that SACCO procedures are followed when performing transactions;
- Maintain favorable customer relations through proper handling of all collection and disbursement functions;
- Exercise discretion, judgment, and initiative regarding transaction problems and inquiries;
- Receive and answer inquiries from clients and internal staff regarding customer related accounts;
- Assist loan officers with questions on the status of accounts, statements, service fees, penalties, etc., in an efficient, courteous manner providing positive employee relations;

- Maintain confidentiality of customer account information. Follow established policies and procedures in responding to inquiries and requests;
- Have the ability to identify client financial services needs and cross-sell services to meet those needs;
- Advise clients on promotional items and services;
- Have a thorough knowledge of all SACCO products and services;

Qualifications:

- High school diploma, with good math skills;
- Excellent reading, writing and oral communication skills in national language;
- Good reading, writing and oral communication skills in English;
- Ability to deal tactfully and effectively with all people.
- Must have a strong work ethic, be flexible and enjoy working with people.

Appendix J Mukwano – ASPS II – USAID/APEP Partnership
Proposal for Producer Cluster Centers

Outside the scope of USAID/Rural SPEED's program to support and promote SACCO development, there exists another partnership, which is seeking to promote viable producer organizations, even to the level of creating cluster centers. The information in this appendix was gathered to get a better understanding of their expected costs and revenues and is not linked to any SACCO development efforts under USAID/Rural SPEED's program

The following information was provided by ASPS II on the estimated cluster revenue and expense streams, after three years of functioning.

Assumptions:	
Number of farmers per cluster	2,500
Average acres cultivated per farmer	1.20
Average yield per acre (kg)	650
Average production per growing season (kg)	1,950,000
Growing seasons per year	2
Commission per kg (UGX)	5
Revenue (UGX):	
Per season	9,750,000
Annual	19,500,000
Expenses – Annual (UGX):	
Office rental	1,800,000
Cluster supervisor salary	3,600,000
Maintenance of communication equipment	1,290,000
Communication expense	3,600,000
Stationery	1,800,000
Annual UBOS assessing of scale	80,000
Scale maintenance	120,000
Sub-total	12,182,000
Projected net income	7,318,000
Estimated subsidy for initial cluster set up costs (UGX):	
Installation MTN communication system	575,000
Purchase of platform scale	1,730,000
Quality control equipment	1,384,000
Computer equipment	4,325,000
Cluster supervisor training	1,290,000
Sub-total	9,304,000
Inputs for demonstrations (USAID/APEP)	8,600,000
Demonstration training and support (USAID/APEP)	6,900,000
Sub-total	15,500,000
Total	24,804,000

Actual Mukwano Costs for Cluster Computer System	
Dell computer ($1,312.00)	2,381,280
APC UPS ($ 310.00)	562,650
Freight charges ($ 66.70)	121,060
Solar panels and installation	8,995,500
Pedestal fan	60,000
Sub-total	12,120,490

Appendix K Income and Expense Model for Sunflower Production

Income and Expense Model Based on 1 Acre of Hybrid Sunflower Production						
	Own Land			Land Rented		
	Type of Plowing			Type of Plowing		
Input	**Ox**	**Hand**	**Tractor**	**Ox**	**Hand**	**Tractor**
Seed	14000	14000	14000	14000	14000	14000
Land Hire				30000	30000	30000
Land clearing	35250	35250	35250	35250	35250	35250
1st Plowing	29500	22650	50000	29500	22650	50000
2nd Plowing	29500	22650	50000	29500	22650	50000
Planting	17900	17900	17900	17900	17900	17900
1st Weeding	21300	21300	21300	21300	21300	21300
2nd Weeding	20800	20800	20800	20800	20800	20800
Bird scaring	10000	10000	10000	10000	10000	10000
Harvesting	27160	27160	27160	27160	27160	27160
Transportation to buying site	12000	12000	12000	12000	12000	12000
Total Cost without fertilizer	217410	203710	258410	247410	233710	288410
Cost of fertilizer	71000	71000	71000	71000	71000	71000
Total Cost with fertilizer	288410	274710	329410	318410	304710	359410
Income						
Yield - 780 kg/acre	273000	273000	273000	273000	273000	273000
Net Income	**55590**	**69290**	**14590**	**25590**	**39290**	**-15410**
Yield - 900 Kg/acre	315000	315000	315000	315000	315000	315000
Net Income	**97590**	**111290**	**56590**	**67590**	**81290**	**26590**
Highest yield with fertilizer	420000	420000	420000	420000	420000	420000
Net Income	**131590**	**145290**	**90590**	**101590**	**115290**	**60590**
Income Use - 780kg/acre						
Next season seeds	14000	14000	14000	14000	14000	0
Investment for next growing season	18530	23097	590	8530	13097	0
Available for consumption	18530	23097	0	3060	12193	0
Available for saving	**4530**	**9096**	**0**	**0**	**0**	**0**
Total	55590	69290	14590	25590	39290	0
Income Use - 900 kg/acre						
Next season seeds	14000	14000	14000	14000	14000	14000
Investment for next growing season	32530	37097	18863	22530	27097	8863
Available for consumption	32530	37097	18863	22530	27097	3727
Available for saving	**18530**	**23096**	**4864**	**8530**	**13096**	**0**
Total	97590	111290	56590	67590	81290	26590
Income Use - 1200 kg/acre						
Next season seeds	14000	14000	14000	14000	14000	14000
Investment for next growing season	43863	48430	30197	33863	38430	20197
Available for consumption	43863	48430	30197	33863	38430	20197
Available for saving	**29864**	**34430**	**16196**	**19864**	**24430**	**6196**
Total	131590	145290	90590	101590	115290	60590

Income and Expense Model Based on 1.5 Acres of Hybrid Sunflower Production

	Own Land Type of Plowing			Land Rented Type of Plowing		
Input	**Ox**	**Hand**	**Tractor**	**Ox**	**Hand**	**Tractor**
Seed	21000	21000	21000	21000	21000	21000
Land Hire				45000	45000	45000
Land clearing	52875	52875	52875	52875	52875	52875
1st Plowing	44250	33975	75000	44250	33975	75000
2nd Plowing	44250	33975	75000	44250	33975	75000
Planting	26850	26850	26850	26850	26850	26850
1st Weeding	31950	31950	31950	31950	31950	31950
2nd Weeding	31200	31200	31200	31200	31200	31200
Bird scaring	15000	15000	15000	15000	15000	15000
Harvesting	40740	40740	40740	40740	40740	40740
Transportation to buying site	18000	18000	18000	18000	18000	18000
Total Cost without fertilizer	326115	305565	387615	371115	350565	432615
Cost of fertilizer	106500	106500	106500	106500	106500	106500
Total Cost with fertilizer	432615	412065	494115	477615	457065	539115
Income						
Yield - 780 kg/acre	409500	409500	409500	409500	409500	409500
Net Income	**83385**	**103935**	**21885**	**38385**	**58935**	**-23115**
Yield - 900 Kg/acre	472500	472500	472500	472500	472500	472500
Net Income	**146385**	**166935**	**84885**	**101385**	**121935**	**39885**
Highest yield with fertilizer	630000	630000	630000	630000	630000	630000
Net Income	**197385**	**217935**	**135885**	**152385**	**172935**	**90885**
Income Use - 780kg/acre						
Next season seeds	21000	21000	21000	21000	21000	0
Investment for next growing season	27795	34646	885	12795	19646	0
Available for consumption	27795	34646	0	4590	18290	0
Available for saving	**6795**	**13644**	**0**	**0**	**0**	**0**
Total	83385	103936	21885	38385	58936	0
Income Use - 900 kg/acre						
Next season seeds	21000	21000	21000	21000	21000	21000
Investment for next growing season	48795	55646	28295	33795	40645	13295
Available for consumption	48795	55646	28295	33795	40645	5590
Available for saving	**27795**	**34644**	**7296**	**12795**	**19645**	**0**
Total	146385	166935	84885	101385	121935	39885
Income Use - 1200 kg/acre						
Next season seeds	21000	21000	21000	21000	21000	21000
Investment for next growing season	65795	72645	45295	50795	57645	30295
Available for consumption	65795	72645	45295	50795	57645	30295
Available for saving	**44795**	**51645**	**24295**	**29795**	**36645**	**9295**
Total	197385	217935	135885	152385	172935	90885

Income and Expense Model Based on 3 Acres of Hybrid Sunflower Production						
	Own Land			Land Rented		
	Type of Plowing			Type of Plowing		
Input	**Ox**	**Hand**	**Tractor**	**Ox**	**Hand**	**Tractor**
Seed	42000	42000	42000	42000	42000	42000
Land Hire				90000	90000	90000
Land clearing	105750	105750	105750	105750	105750	105750
1st Plowing	88500	67950	150000	88500	67950	150000
2nd Plowing	88500	67950	150000	88500	67950	150000
Planting	53700	53700	53700	53700	53700	53700
1st Weeding	63900	63900	63900	63900	63900	63900
2nd Weeding	62400	62400	62400	62400	62400	62400
Bird scaring	30000	30000	30000	30000	30000	30000
Harvesting	81480	81480	81480	81480	81480	81480
Transportation to buying site	54000	54000	54000	36000	36000	36000
Total Cost without fertilizer	670230	629130	793230	742230	701130	865230
Cost of fertilizer	213000	213000	213000	213000	213000	213000
Total Cost with fertilizer	883230	842130	1006230	955230	914130	1078230
Income						
Yield - 780 kg/acre	819000	819000	819000	819000	819000	819000
Net Income	**148770**	**189870**	**25770**	**76770**	**117870**	**-46230**
Yield - 900 Kg/acre	945000	945000	945000	945000	945000	945000
Net Income	**274770**	**315870**	**151770**	**202770**	**243870**	**79770**
Highest yield with fertilizer	1260000	1260000	1260000	1260000	1260000	1260000
Net Income	**376770**	**417870**	**253770**	**304770**	**345870**	**181770**
Income Use - 780kg/acre						
Next season seeds	42000	42000	25770	42000	42000	0
Investment for next growing season	49590	63290		25590	39292	0
Available for consumption	49590	63290		9180	36580	0
Available for saving	**7590**	**21290**		**0**	**0**	**0**
Total	148770	189870	25770	76770	117872	0
Income Use - 900 kg/acre						
Next season seeds	42000	42000	42000	42000	42000	42000
Investment for next growing season	97590	111292	56590	67590	81290	26590
Available for consumption	97590	111292	53180	67590	81290	11180
Available for saving	**37590**	**51286**	**0**	**25590**	**39290**	**0**
Total	274770	315870	151770	202770	243870	79770
Income Use - 1200 kg/acre						
Next season seeds	42000	42000	42000	42000	42000	42000
Investment for next growing season	125590	139290	84590	101590	115290	60590
Available for consumption	125590	139290	84590	101590	115290	60590
Available for saving	**83590**	**97290**	**42590**	**59590**	**73290**	**18590**
Total	376770	417870	253770	304770	345870	181770

Appendix L Sample Loan Payment Schedule for a Hypothetical Threshing Machine

Sample Threshing Machine Loan

Term	**22**	**Months**
Amount[7]	**500000**	**UGX**
Interest	**3%**	**per month**
Methodology	**Declining**	**Balance**

Date	Description	Principal Outstanding	Installment			Principal Outstanding
			Principle	Interest	Total	
30-May-06	Loan disbursement	500000	0	0	0	500000
30-Jun-06	Grace period	500000	0	0	0	500000
30-Jul-06	1st payment	500000	41700	30500	72200	458300
30-Aug-06	2nd payment	458300	41693	14207	55900	416607
30-Sep-06	3rd payment	416607	41685	12915	54600	374922
30-Oct-06	No payment	374922	0	0	0	374922
30-Nov-06	No payment	374922	0	0	0	374922
30-Dec-06	4th payment	374922	41682	34118	75800	333240
30-Jan-07	5th payment	333240	41670	10330	52000	291570
28-Feb-07	6th payment	291570	41644	8456	50100	249926
30-Mar-07	No payment	249926	0	0	0	249926
30-Apr-07	No payment	249926	0	0	0	249926
30-May-07	No payment	249926	0	0	0	249926
30-Jun-07	No payment	249926	0	0	0	249926
30-Jul-07	7th payment	249926	41661	37989	79650	208265
30-Aug-07	8th payment	208265	41644	31656	73300	166621
30-Sep-07	9th payment	166621	41674	25326	67000	124947
30-Oct-07	No payment	124947	0	0	0	124947
30-Nov-07	No payment	124947	0	0	0	124947
30-Dec-07	10th payment	124947	41630	11370	53000	83317
30-Jan-08	11th payment	83317	41667	2583	44250	41650
28-Feb-08	12th payment	41650	41650	1208	42858	0
Total			500000	220658	720658	

Estimated Thresher Machine Annual Income:

Income Item	Amount	Unit	Acres/Days	Seasons	Total (UGX)
Value of savings on own threshing	20,000	UGX/acre	3	2	120,000
Equipment rental	20,000	UGX/day	30	2	1,200,000
Total					1,320,000

[7] The loan amount of 500,000 UGX is entirely hypothetical and does not reflect any actual cost. The idea is to show how this type of medium term loan could be structured.

Appendix M Mukwano Sunflower Purchases – 2004 - 2005

PRODUCTION	PERIOD	SUN FLOWER PURCHASED (KG)		
		Local	Hybrid	Total
From the 2nd season 2003	January 2004	1,864,416	5,270	1,869,686
	February 2004	484,012	35,222	519,234
	March 2004	5,759	10,823	16,582
	April 2004	359	130	489
	May 2004	18	106	124
Sub-total		**2,354,564**	**51,551**	**2,406,115**
From the 1st season 2004	June 2004	0	0	0
	July 2004	9,380	59,442	68,822
	August 2004	9,152	181,722	190,874
	September 2004	7,579	179,701	187,280
	October 2004	52,093	62,698	114,791
	November 2004	273,633	299,957	573,590
Sub-total		**351,837**	**783,520**	**1,135,357**
From the 2nd season 2004	December 2004	661,722	441,495	1,103,217
	January 2005	623,952	1,165,943	1,789,895
	February 2005	213,124	429,958	643,082
	March 2005	628	26,625	27,253
	April 2005	150	3,933	4,083
	May 2005	0	64,350	64,350
Sub-total		**1,499,576**	**2,132,304**	**3,631,880**
From the 1st season 2005	June 2005		10,860	10,860
	July 2005	483[8]	1,001,171	1,001,654
	August 2005		2,091,193	2,091,183
	September 2005		862,505	862,505
	October 2005		229,744	229,744
	November 2005		575,082	575,082
Sub-total		**483**	**4,770,555**	**4,771,028**
From the 2nd season 2005[9]	December 2005		1,772,101	1,772,101
TOTAL		**4,206,460**	**9,510,031**	**13,716,491**

[8] One farmer mixed together the hybrid and local seed so Mukwano purchased it at the local seed price of 250 UGX/Kg. Otherwise, Mukwano is no longer purchasing any local sunflower seed production.
[9] Sale of 2nd season 2005 production has just begun so data is only available for December 2005.